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No. 07-

IN THE
Supreme Court of the United States

HOMAN MCFARLING,
Petitioner,

v.

MONSANTO COMPANY,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

(1) In determining a "reasonable royalty" under the patent-damages statute, 35 U.S.C. § 284, may the factfinder award the patentee either:

(a) a hypothetically negotiated royalty that vastly exceeds the established royalty charged in the marketplace, or

(b) a royalty that includes damages to the patentee's third-party distributors and is intended to force the infringer to disgorge his profits—even though Congress eliminated the equitable-disgorgement remedy in 1946?

(2) Do the doctrines of patent exhaustion and patent misuse permit the purchaser of a patented good to use that good and dispose of its products as it sees fit, absent a valid contract?

RULE 29.6 STATEMENT

Pursuant to Supreme Court Rule 29.6, petitioner states that he has no parent companies or nonwholly owned subsidiaries.

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PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The published opinion of the Court of Appeals (App. 1a-17a) is available at 488 F.3d 973. The unpublished opinion of the District Court (App. 18a-32a) is available at 2005 WL 1490051.

Prior opinions in the case are set out at App. 33a-137a.

JURISDICTION

The Court of Appeals' judgment was entered on May 24, 2007. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

The patent-damages statute, 35 U.S.C. § 284 (2007), states in part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 271(d) partially codifies the patent-misuse doctrine and states:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having

done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

STATEMENT OF THE CASE

1. Petitioner Homan McFarling operates a farm in Pontotoc County, Mississippi. (App. 109a). In 1998, McFarling purchased Monsanto's Roundup Ready soybean seeds from a seed company. (App. 4a). Roundup Ready seeds are genetically modified to be resistant to glyphosphate, the active ingredient in Monsanto's Roundup herbicide. (App. 2a-3a). Using the two products together allows farmers to kill weeds but not crops. (App. 2a-3a).

The genetic modifications in the Roundup Ready seeds are the subject of two Monsanto patents, the '435 and the '605 patents. (App. 2a-3a). Monsanto distributed the seeds through seed companies, some of which it owned and some of which were independent. (App. 3a, 10a). Monsanto required the seed companies to obtain a signed "Technology Agreement" from buyers. Among other things, the Agreement required farmers not to replant seeds produced from the purchased seeds or to supply those seeds to others for replanting. (App. 3a). Farmers paid Monsanto a "Technology Fee" of $6.50 per 50-pound bag of soybean seed and also paid the seed company between $19 and $22 per bag.

McFarling signed the Technology Agreement and paid the required fees in 1998. (App. 4a). Monsanto later sued McFarling, alleging that he had breached the Technology Agreement and had infringed both patents by replanting "saved" seeds in the 1999 and 2000 growing seasons. (App. 4a). Monsanto obtained a preliminary injunction prohibiting McFarling from continuing to plant Roundup Ready soy-

beans, and the Federal Circuit upheld that order (*McFarling I*) (App. 57a-88a). McFarling complied with the injunction, limiting Monsanto's damages to those arising from McFarling's conduct in the 1999 and 2000 growing seasons.

Monsanto later obtained a grant of partial summary judgment, including a judgment that McFarling had infringed both patents and had violated the Technology Agreement. On appeal from that judgment, the Federal Circuit vacated a damages award of $780,000 that was based on a clause in the Technology Agreement imposing a liquidated penalty of 120 times the Technology Fee (*McFarling II*) (App. 105a-137a). In reaching that conclusion, the Federal Circuit rejected Monsanto's argument that enforcing the liquidated-damages clause was necessary to prevent McFarling from "gain[ing] a competitive advantage in the marketplace" relative to farmers who had complied with the Technology Agreement. (App. 136a). "This argument," wrote the court, "is inimical to the compensatory nature of contract remedies: it sounds in deterrence, not compensation, and therefore suggests that the multiplier is in the nature of a penalty clause rather than a liquidated damages clause." (App. 136a). The Federal Circuit then remanded to the district court "for a determination of actual damages." (App. 137a).

On remand, Monsanto withdrew all claims other than its '605 patent claim, including its contract claim, and thereby further limited the ensuing jury trial to a determination of patent-infringement damages. (App. 5a, 21a). Monsanto ultimately was awarded $375,000, or $40 per bag of planted seed—

more than *six times* the $6.50-per-bag Technology Fee. (App. 5a-6a). The district court upheld the award on the theory that McFarling might continue to replant these seeds and thus cause Monsanto to sustain future damages, even though it was undisputed that McFarling had done no replanting of seeds since being enjoined from doing so in 2001. (App. 19a-20a, 22a, 25a-28a, 30a n.2).

Throughout these proceedings, McFarling contended that the patent laws did not allow Monsanto to control the future use of seeds that were a natural product of the seeds that he had bought and planted. He initially lost these claims when the Technology Agreement was in the case; but he renewed them when Monsanto's claim for damages was based solely on the '605 patent, which did not on the face of the claims extend to replanted seeds. Despite these changes, the district court adhered to its prior rulings and denied McFarling's JMOL motion in which he had re-asserted his patent-misuse defense. (App. 8a-9a).

On appeal from that judgment, McFarling raised the two issues discussed here: (1) damages and (2) patent exhaustion and misuse.

2. As to damages, McFarling argued that the award was grossly excessive and should have been limited to the $6.50-per-bag Technology Fee, which was the "established royalty" for purposes of 35 U.S.C. § 284. But the Federal Circuit disagreed and affirmed the $40-per-bag award—although not on the theory presented to the jury, approved by the

district court, or argued by Monsanto in the Federal Circuit. (App 1a-2a).

The Federal Circuit's decision explored two distinct methods for justifying the jury's damages award: an "established royalty," and a hypothetical royalty. Finding it impossible to justify the entire $40 figure using the "established royalty" method, and being unable or unwilling to rely on the district court's rationale for upholding the award, the Federal Circuit created its own hypothetical royalty based principally on the benefits that McFarling supposedly obtained from his infringing acts. The court's analysis of the established and hypothetical royalties proceeded as follows.

[1] The Established Royalty.

The established royalty that the Federal Circuit first investigated contained two components:

[a] The Technology Fee ($6.50 per bag). McFarling agreed that this component was legitimate as it constituted the "established royalty" set by the Technology Agreement. (App. 8a-9a).

[b] The Seed Company Fee (additional $19 to $22 per bag). McFarling argued that Monsanto had no standing or right to obtain this amount as damages, because any Seed Company Fees would have been paid to seed companies, not to Monsanto.

But the Federal Circuit held that the Technology Fee *plus* the Seed Company Fee (less certain minor costs) could be "characterized as a pure royalty payment" and thus as the established royalty in the case. (App. 11a).

The court's basic rationale was that the Seed Company Fee must be part of the established royalty because Monsanto's Technology Agreement required farmers to buy seeds from authorized seed companies that charged that fee. (App 10a-12a). By requiring farmers to patronize authorized seed companies, Monsanto effectively "direct[ed] part of the royalty to the third-party seed companies, which promoted and distributed Monsanto's products." (App. 11a). Thus, to hold that the established royalty was only $6.50 would "not acknowledge the significance of the requirement that licensees not only pay the $6.50, but also purchase the genetically modified seeds from a seed company rather than replanting saved seed." (App. 12a).

The court added that limiting the "established royalty" to $6.50 "would create a windfall for infringers like McFarling" who would obtain "a huge advantage over other farmers" who paid the Seed Company Fee and complied with other license terms. (App. 11a-12a). Thus, the court discerned a "deterrence" function for patent-infringement damages that it had rejected with respect to contract damages in *McFarling II*.

The Federal Circuit found that the "established royalty method" could justify a royalty of up to $28.50 per bag (the $6.50 Technology Fee plus a $22 Seed Company Fee)—*if* one took the unprecedented step of including in the royalty losses of gross revenues to third parties (the seed companies). But, even including losses to third parties—a theory never presented to the jury—the "established royalty" method could not justify the $40 per bag that

the jury had awarded. To uphold that award, another methodology would be required.

[2] The Hypothetical Royalty. The Federal Circuit held that it would be "*improper*" to limit damages to its already inflated "established royalty," because Roundup Ready soybean seeds offer farmers such valuable advantages over conventional soybean seeds that it would be rational to pay as much as $61 per bag for them. (App. 13a-14a) (emphasis added).

Based on the testimony of Monsanto's expert, the court concluded that the monetary benefits to farmers from using Roundup Ready seed instead of conventional seed included increased yields and cost savings worth $31 to $61 per acre. Since it takes about one bag to plant one acre, benefits per bag could be as high as $61. (App. 13a-14a). Accordingly, the benefits to the purchaser alone made it "reasonable for the jury to suppose that, in a hypothetical negotiation, a purchaser would pay a royalty of $40 per bag for the Roundup Ready seed." (App. 14a).[1]

3. On the issue of patent exhaustion and misuse, the Federal Circuit held that, by replanting seeds produced from ones that he had purchased, McFarling had made infringing copies of Monsanto's patented invention, even though those replanted seeds naturally grew from the soybean plants. (App. 7a) (emphasis added). ("Monsanto's 605 patent reads on

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[1] The court also purported to take into account the benefits of the licensing program to Monsanto, but failed to quantify them. (App. 12a-13a).

both purchased and farmer-grown Roundup Ready soybeans"). Thus, the Federal Circuit reasoned, McFarling infringed the 605 patent merely by making the ordinary and expected use of soybean seeds that he had purchased from Monsanto—planting them in the ground to grow soybean plants whose seeds he then replanted.

REASONS FOR GRANTING THE PETITION

I. The Federal Circuit has rewritten the patent-damages statute to provide patent owners with a remedy that far exceeds the amount "adequate to compensate for the infringement."

The patent-damages statute, 35 U.S.C. § 284, provides in part that the court "shall" award a successful patent-infringement plaintiff "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer."

Under § 284, "[t]he goal of the law of monetary relief for patent infringement is to provide full compensation to the owner of a patent." 7 Donald S. Chisum, *Chisum on Patents* § 20.01, at 20-7 (2002) [hereinafter "*Chisum*"]. "The primary award should be the best approximation of the amount necessary to restore the owner to the financial position he would have enjoyed had the infringer not engaged in unauthorized acts in violation of the owner's exclusive patent rights." *Id.*

McFarling III completely rewrites this fundamental compensatory principle, and authorizes courts in future cases to award patent owners wind-

fall damages that they never would have received had the infringement not occurred. In the case at bar, these super-compensatory awards included:

*** A hypothetical royalty that exceeded, by a factor of six, the established royalty that the patent owner demanded in the real world.** The underlying theory of this award was that—even when the market completely answers the question of what a "reasonable royalty" would have been—juries not only may, but *must*, award more than the "established royalty" if the record would support a finding that the benefits to the defendant of using the product exceeded the established royalty. To award merely the "established royalty" under those circumstances would be "*improper*," according to these new teachings. This stands long-established patent-damages principles on their head. In the past, this Court (and the Federal Circuit itself) had long held that an established royalty is preferable to a hypothetical one when determining "reasonable royalty" damages.

*** Alternatively, an "established royalty" that included (a) losses sustained not by the patent owner, but by *third parties* in the patent owner's distribution network, and (b) money awarded to deter the infringer from using the savings from his infringement to engage in unfair competition.** This unprecedented method of calculating an "established royalty" violates the basic standing principle that a litigant cannot obtain damages for someone else's losses.

McFarling III also suggests that a "reasonable royalty" should include enhancements to discourage

the infringer from competing unfairly with others who complied with their license obligations. But compensation, not deterrence, is the touchstone of patent damages under § 284.

Moreover, the *McFarling III* rule achieves deterrence by forcing the infringer to disgorge the savings that he achieved through infringement. But Congress eliminated equitable disgorgement as a patent-damages remedy in 1946. *McFarling III* thus rewrites § 284 in contravention of an explicit Congressional policy.

A. *McFarling III* violates the rule that an established royalty generally precludes the use of a hypothetical one.

The *McFarling III* decision disrupts previously settled law and introduces confusion about whether and when an established royalty should preclude the factfinder from considering and awarding a "hypothetical" one.

1. Even after it had finished inflating the "established royalty" by including losses to third-party distributors, the Federal Circuit concluded that it would be "improper" to limit damages to that amount because Roundup Ready seeds generated additional benefits to the patent owner and the infringer that—for some unexplained reason—were not captured adequately in the established royalty. (App. 12a).

Accordingly, the court approved a hypothetically negotiated royalty that was more than *six times* the $6.50 per bag that Monsanto actually charged as a Technology Fee. In so doing, the Federal Circuit vio-

lated basic patent-damages precepts. As this Court held over 120 years ago, "[i]t is a general rule in patent causes that established license fees are the best measure of damages that can be used." *Clark v. Wooster*, 119 U.S. 322, 326 (1886). Modern cases reaffirm that, "[w]here an established royalty exists, it will usually be the best measure of what is a 'reasonable' royalty." *Nickson Indus., Inc. v. ROLM Mfg. Co.*, 847 F.3d 795, 798 (Fed. Cir. 1988); *see also Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983).

For a royalty to be deemed "established" under this Court's test in *Rude v. Wescott*, 130 U.S. 152 (1889), "it must be paid or secured before the infringement complained of; it must be paid by such a number of persons as to indicate a general acquiescence in its reasonableness by those who have occasion to use the invention; and it must be uniform at the places where the licenses are issued." *Id.* at 185. Thus, "[i]t is undoubtedly true that where there has been such a number of sales by a patentee of licenses to make, use, and sell his patents as to establish a regular price for a license, that price may be taken as a measure of damages against infringers." *Id.* In this case, there is no question that these standards were satisfied. *Every* soybean farmer who planted Monsanto's genetically modified soybeans—more than 90% of the soybean farmers in the country (App. 26a)—paid Monsanto the same $6.50-per-bag Technology Fee for those rights.[2]

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[2] Monsanto's justification in the trial court for damages above $6.50 was that McFarling could continue to

2. The law also provides for a second-best solution if no established royalty can be proved. In that event, the factfinder can base the award "upon a hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee." *Hanson*, 718 F.2d at 1078.

But the law is clear that a hypothetical royalty should *not* be awarded if an established royalty exists. *See, e.g, Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed. Cir. 1996) ("*Lacking evidence of royalties in the marketplace*, this court accepts evidence about hypothetical results of hypothetical negotiations between the patentee and infringer (both hypothetically willing) at the time infringement began.") (emphasis added); *Trell v. Marlee Elecs. Corp.*, 912 F.2d 1443, 1445 (Fed. Cir. 1990) (reasonable royalty "'may be based upon an established royalty, if there is one, or *if not*[, then] upon a hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee.'") (emphasis added); *id.* at 1446 ("*Because no established royalty existed* for licensing the Trell patent, the district court 'necessarily had to use a "a willing buyer/willing-seller concept"'") (emphasis added); *Hughes Aircraft Co. v. U.S.*, 86 F.3d 1566, 1569 (Fed.

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replant the naturally recurring seeds every year, and that seeds that could be replanted were worth more than $6.50. That theory cannot support this award because McFarling was enjoined from replanting seeds starting in 2001, and it is undisputed that he adhered fully to that injunction. The Federal Circuit did not rely on the risk of replanting as justification for an award higher than $6.50 per bag.

Cir. 1996) ("*Because an established royalty rate did not exist* for licensing the Williams patent, the court determined the royalty rate using the 'willing buyer/willing seller' rule.") (emphasis added); *see also Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 386 F.2d 287, 292 (4th Cir. 1967) (holding that information relating to infringer's profit did not "have relevance to a reasonable royalty. There was in this case an established royalty, and inquiry should not have extended beyond it.").

The rule that an established royalty precludes a hypothetical one makes perfect sense, because McFarling knew that he could walk into any authorized seed store and walk out with a bag of Roundup Ready seed for as little as $25.50, of which $6.50 would go to Monsanto. There is no reason to "hypothesize" that he would have paid Monsanto a dime more.[3]

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[3] Until *McFarling III*, the only circumstance in which courts had authorized a hypothetical royalty that exceeded an established one was "when the evidence clearly show[ed] that widespread infringement made the established royalty artificially low." *Nickson Indus.*, 847 F.3d at 798. To invoke this exception, there must be a "substantial factual basis which justifie[s] the court's decision to disregard the existing license rate." *Trio Process Corp. v. L. Goldstein's Sons, Inc.* 612 F.2d 1353, 1359 (3d Cir. 1980). But no "substantial factual basis" for such a deviation exists where the "license rate agreed upon between [the parties] was arrived at in free and open negotiations conducted prior to any infringing activity," there are no "allegations * * * of industry-wide infringement," and there is "no indication that the license rates * * * de-

3. *McFarling III* throws long-established principles of patent damages into confusion, and creates substantial uncertainty for those accused of patent infringement.[1] Before this case, patent damages were anchored, whenever possible, in marketplace realities. In keeping with the compensatory purpose of § 284, courts accepted actual, market-based data about the value of patents over expert-driven hypotheticals that can easily test the limits of a lay jury's comprehension. That principle is now in tatters. Patent owners unsatisfied with charging what the market will bear can now obtain supercompetitive returns in patent-infringement suits. The economic incentive to bring marginal or even meritless infringement claims will be overwhelming. And courts following *McFarling* will have no choice but to accept circumstantial evidence about what hypothetical parties might have negotiated in a

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clined after [the] infringement." *Id.* at 1359. That is the case here. Nothing in *McFarling III* suggests that Monsanto's standard licensing fees were artificially depressed by widespread infringement.

[1] Nor is *McFarling III* the only recent Federal Circuit decision to do so. In *Monsanto v. Ralph*, 382 F.3d 1374 (Fed. Cir. 2004), the Federal Circuit similarly affirmed a damages award far in excess of the established royalty because it concluded that the patentee in a hypothetical negotiation wouldn't agree to the terms of that royalty. To be sure, the facts of *Ralph* contained egregious behavior by the defendant that did not occur here; but as we note below, patent damages are not intended to deter infringement—merely to compensate for it.

counterfactual world in preference to actual evidence of what real parties were in fact willing to pay.

Accordingly, this Court should grant review to settle the now-unsettled law regarding the relationship between established and hypothetical royalties in determining a "reasonable royalty" under 35 U.S.C. § 284.

B. By awarding the patent owner damages incurred by third-party distributors, *McFarling III* violates standing principles and the rule against equitable disgorgement of infringer profits.

The Federal Circuit's alternative analysis, which purported to justify only part of the $40-per-bag damages award, presumed that the "established royalty" could include losses sustained not by the patent owner, but by third-party distributors—*i.e.*, the seed companies. This aspect of the *McFarling III* decision warrants review on two grounds.

First, it violates basic standing principles that preclude a party from obtaining damages for losses sustained by others.

Second, part of the Federal Circuit's justification for including third-party losses in the established royalty was to prevent McFarling from reaping a competitive advantage over other licensee farmers who paid the Seed Company Fee. In other words, the court made McFarling disgorge part of the savings that he achieved through infringement. But this rationale injects an improper "deterrence" rationale into § 284 and violates Congress's 1946 de-

cision to remove infringer profits from the patent-damages formula.

1. *McFarling III* violates the standing rule that a litigant cannot recover damages for others' losses.

The Seed Company Fee which equaled roughly half of the damages award in this case represented money that would have been paid to seed companies—not to Monsanto. Not only that—it represents *all* of the revenues that the seed companies would have obtained from selling Roundup Ready seed. The Federal Circuit's opinion therefore rests on the completely unexplained (and inexplicable) assumption that Monsanto's distributors turn over to Monsanto 100% of their revenues from sales of Roundup Ready seeds. In other words, the distributors are assumed for no apparent reason to work not merely for free, but indeed, at a loss, since they no longer could recoup the cost of processing and selling the seeds.[5] This assumption is doubly bizarre, since the facts of the case make it quite clear that the seed companies, far from turning over all the Seed Company Fee to Monsanto, in fact kept it all. When a farmer bought a bag of seed, Monsanto received only the $6.50 Technology Fee.

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[5] *Cf. Marconi Wireless Tel. Co. of Am. v. United States*, 53 U.S.P.Q. 246 (Ct. Cl. 1942) ("[W]e can readily assume that the price agreed upon would be something less than it would have cost defendant to use an equivalent device, for, unless this were done, the defendant as a party to this negotiation would receive absolutely no benefits.").

McFarling III thus stands for the radical proposition that, in addition to awarding a patent owner an established, industry-wide royalty—here, the $6.50-per-bag Technology Fee—a jury should award the patent owner vast sums representing all of the revenues that the patent owner's authorized distributors would have obtained but for the infringement.

That is simply not a remedy that a litigant has standing to seek in federal court. It is, of course, fundamental that a litigant "has standing to seek redress for injuries done to him, but may not seek redress for injuries done to others." *Moose Lodge No. 107 v. Irvis*, 407 U.S. 163, 164 (1972). "The Art. III judicial power exists only to redress or otherwise to protect against injury to the complaining party, even though the court's judgment may benefit others collaterally." *Warth v. Seldin*, 422 U.S. 490, 499 (1975). And "even when the plaintiff has alleged injury sufficient to meet the 'case or controversy' requirement, this Court has held that the plaintiff generally must assert his own legal rights and interests, and cannot rest his claim to relief on the legal rights or interests of third parties." *Id.*; *cf. Philip Morris USA v. Williams*, 127 S. Ct. 1057, 1063 (2007) (due process forbids using a punitive-damages award "to punish a defendant for injury that it inflicts upon nonparties * * * , *i.e.*, injury that it inflicts upon those who are, essentially, strangers to the litigation").

Accordingly, although some exceptions to the general standing rule exist, courts have had no trouble reaching the "common conclusion" that "standing to assert the rights of others does not extend to col-

lecting damages measured by injury to others." 13 Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction* § 3531.9, at 569-70 (2007).[6] Yet that is exactly what occurred here.

2. Forcing McFarling to disgorge the benefits of his infringement—*i.e.*, his nonpayment of the Seed Company Fee—injects an improper "deterrence" rationale into § 284 and violates its rule against equitable disgorgement of infringer profits.

The Federal Circuit tried to justify its departure from normal standing principles by explaining that, unless the Seed Company Fee were included in the established royalty, infringers like McFarling would gain a competitive advantage over noninfringing farmers who paid the Seed Company Fee. The court ruled that this "windfall" should be paid to Monsanto instead. (App. 11a-12a).

But this "deterrence" function is foreign to the law of § 284 damages, which are strictly intended to compensate the patent owner, not to level the playing field between the infringer and other licensees. As this Court made clear more than a century ago in *Coupe v. Royer*, 155 U.S. 565 (1895):

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[6] *See also Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 119 n.14 (1985) (airline could not "assert the right of others to recover damages against" union for discriminatory conduct); *Buise v. Hudkins*, 584 F.2d 223, 229 (7th Cir. 1978) ("[P]laintiff offers no reason why he should be able to recover damages for a violation of the rights of other[s]").

> At law, the plaintiff is entitled to recover, as damages, compensation for the pecuniary loss he has suffered from the infringement, *without regard to the question whether the defendant has gained or lost by his unlawful acts*; the measure of recovery in such cases being, not what the defendant has gained, but what plaintiff has lost.

Id. at 582 (emphasis added). Ironically, in *McFarling II*, the Federal Circuit expressly rejected the same deterrence rationale in connection with Monsanto's claim for contract damages. In that decision, the Federal Circuit held that enhancing Monsanto's damages to level the playing field between McFarling and other licensees would be "inimical to the compensatory nature of contract remedies" because it "sounds in deterrence, not compensation." (App. 136a).[7] Yet in *McFarling III*, the Federal Circuit accepted the very same rationale in connection

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[7] Although the Federal Circuit in *Monsanto II* was reacting to a clearly punitive liquidated-damages penalty of 120 times the Technology Fee, the distinction is one of degree, not kind. Including third-party damages in the established royalty here inflates the established $6.50-per-bag royalty more than four-fold—still a significant departure from the principle of pure compensation, and more than the trebling of damages used for deterrent purposes in antitrust law (*see* 15 U.S.C. § 15(a)) and under the patent-law willfulness doctrine (*see Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1569-72 (Fed. Cir. 1996)). And as noted above, the total award that the Federal Circuit affirmed was even more punitive—over *six* times the actual loss to Monsanto.

with Monsanto's argument that its § 284 damages should be enhanced by including the losses sustained by third-party seed companies. The inconsistency is evident, because § 284 damages, like contract damages, are compensatory in nature.

The Federal Circuit's unfair-competition rationale effectively seeks disgorgement of infringer profits—a remedy that Congress abolished in 1946. Prior to 1946, the precursor to § 284 provided that a successful patent-infringement plaintiff "shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby * * * ." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964) (quoting R.S. § 4921, as amended, 42 Stat. 392). Thus, "[u]nder the pre-1946 statute, the owner of a patent could recover both his own damages and the infringer's profits." *GM Corp. v. Devex Corp.*, 461 U.S. 648, 654 (1983). But "[i]n 1946 Congress excluded consideration of the infringer's gain by eliminating the recovery of his profits, * * * the determination of which had often required protracted litigation." *Id.* "By the 1946 amendment, * * * the statute was changed to approximately its present form, whereby only [the patent owner's] 'damages' are recoverable. The purpose of the change was precisely to eliminate the recovery of [the infringer's] profits as such and allow recovery of damages only." *Aro*, 377 U.S. at 505 (footnote omitted).[5]

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[5] The *Aro* Court explained that, in the pre-1946 patent nomenclature, "'what the infringer makes is "profits,"

Accordingly, "it is clear that under the present statute only damages are recoverable." *Id.* at 506. But, under its unfair-competition rationale, the Federal Circuit has authorized patent owners to recover the entire cost savings that an infringer obtained through infringement—including, in this case, savings from not paying a fee charged by authorized distributors.

McFarling III therefore takes the law of patent damages back to 1946, and directly contravenes both the statutory language and this Court's interpretation of that language in *Aro*. Here, too, the Federal Circuit has thrown a previously well-settled damages rule into disarray. Patent owners after *McFarling III* can be expected to seek compensation for unjust enrichment, arguing that, like McFarling, the defendants in their cases should not be entitled to a "windfall" from their infringement.

Accordingly, this Court should grant certiorari to restore patent damages to their proper role of compensating patent owners, not deterring infringers or disgorging profits.

II. The Federal Circuit has improperly broadened patent rights by vitiating the doctrine of patent exhaustion.

It defies both common sense and the patent-exhaustion doctrine to hold, as the Federal Circuit did here, that a farmer who buys seeds from Monsanto in order to plant them, and actually does plant

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what the owner of the patent loses by such infringement is "damages."" 377 U.S. at 505.

them, infringes Monsanto's patent because the plants naturally produce new copies of the seeds as they grow. This Court's precedents have long held that one who purchases a good from the patent owner or from a licensee is free to make the ordinary and expected use of that good, at least unless restricted by a valid contract. This Court has applied that principle even where, as here, the defendant buys precursor materials and makes the patented invention from those materials. *McFarling III* completes the Federal Circuit's decades-long effort to circumscribe this Court's exhaustion precedent. Once the proper boundaries of the patent right are understood, it becomes evident that Monsanto has transgressed those boundaries and therefore must answer for its misuse of the patent.

McFarling put the invention he bought to its only reasonable use. He purchased seeds; he planted them in the ground; and they grew into soybean plants, which naturally produce new seeds. The Federal Circuit held that, merely by planting the seeds he purchased, McFarling has made infringing copies of its patented invention, since planting the seeds generated new seeds. (App. 6a-8a). But the new seeds cannot be infringing under this Court's long-established principle of patent exhaustion because they are—literally—the natural result of putting the purchased invention to its only reasonable use. As a result, the Federal Circuit erred in rejecting McFarling's patent-misuse claim on the basis that Monsanto was merely acting within the scope of its patent rights. It was not.

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1. In *Adams v. Burke*, 84 U.S. 453 (1873), this Court stated, "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Id.* at 456. The last time it examined the patent-exhaustion doctrine, this Court strengthened *Adams*' holding, stating that, once a patentee has received his reward through "the sale of the article," then "patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942).

Univis Lens is a particularly apt analogy because there—like here—the patentee did not actually sell the defendant the patented invention, but rather a precursor: eyeglass lens blanks that the defendant converted into patented lenses for sale. Even though the defendant in *Univis Lens* "made" and "sold" the infringing product itself, this Court held that the exhaustion doctrine precluded liability as a matter of patent law because the ordinary and expected use of the lens blanks was to grind them into the patented lenses:

> the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold. * * * The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers. Whether the licensee sells that pat-

> ented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article.

Id. at 249, 251-52. Similarly, the sale of patented soybean seeds to farmers was useful only in planting those seeds, and therefore in growing soybean plants that would by their nature generate new seeds. The idea that Monsanto can sell seeds to farmers, and then charge each of them with infringement for making the only foreseeable use of those seeds—planting them—strikes at the heart of the exhaustion doctrine.

It is true that the soybean plants here naturally make not just one but many seeds, and that Monsanto may have a business interest in restricting by contract the uses to which farmers put those seeds. But there is no such enforceable contract at issue in this case. In earlier proceedings before the district court, Monsanto contended that McFarling was liable for breach of contract as well as for patent infringement. (App. 20a-21a). McFarling challenged the validity of the contract, and persuaded the Federal Circuit that its liquidated damages provision was an unlawful penalty. (App. 120a-137a). Rather than prove enforceability of the contract and breach by McFarling and then seek ordinary contract damages, Monsanto made a strategic decision to abandon its contract claim. (App. 21a). Monsanto had its op-

portunity to assert that a contract bound McFarling. It forewent that opportunity. Accordingly, Monsanto was left to assert its naked claim that it may control all post-sale use of its patented invention as a matter of patent law, and it is that radical proposition that the Federal Circuit adopted.

The Federal Circuit's decision highlights the extent to which that court has departed from the principles of patent exhaustion. It is one thing to hold, as the Federal Circuit has done, that patentees may impose some post-sale restrictions by contract. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992).[9] It is quite another for the Federal Circuit to hold that Monsanto had the power *as a matter of patent law* to place post-sale restrictions on McFarling's use of the seeds he purchased. As this Court put it in *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 662-66 (1895):

> [W]e think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in

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[9] What contractual restrictions may be permissible as a matter of law is not a question this Court need reach, given Monsanto's abandonment of its contract claim. *Cf. Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917) ("it is not competent for the owner of a patent by notice attached to its machine * * * to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of the patent owner.").

> such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

2. The Federal Circuit has in this case sub silentio rejected the holdings of both *Univis Lens* and *Keeler*, something it has no power to do.

Nor is that sub silentio rejection limited to this case. The Federal Circuit's gradual erosion of this Court's exhaustion precedent, leading up to its outright rejection in this case, has not gone unnoticed. Commentators have been virtually unanimous in their scorn for the Federal Circuit's abandonment of this Court's guidance on the scope of the exhaustion doctrine.[10]

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[10] *See, e.g.*, James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Pat. & Trademark Off. Soc'y 550, 554 (1993); Arthur J. Gajarsa et al., *How Much Fuel to Add to the Fire of Genius? Some Questions About the Repair/Reconstruction Distinction in Patent Law*, 48 Am. U. L. Rev. 1205, 1229-30 (1999); Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in U.S. Patent Law: Mallinckrodt v. Medipart*, 15 Eur. Intell. Prop. Rev. 460, 461 (1993); Thomas Arno, *Use Restrictions and the Retention of Property Interests in Chattels Through*

Indeed, scholars have focused attention on Monsanto's restriction on post-sale reuse of its patented seeds as a particularly pernicious consequence of this abandonment. Commentators agree that while a seed-selling patentee may restrict use of its invention by contract in certain circumstances, the self-replicating nature of the invention itself means that the exhaustion doctrine gives the buyer an implied license to grow more seeds by planting the purchased seeds in the ground.[11] These commentators recognize that applying the traditional contours of the exhaustion doctrine to biotechnology does not "eviscerate the rights of the patent holder," as the Federal Circuit asserted in *Monsanto Corporation v. Scruggs*, 459 F.3d 1328, 1336 (Fed. Cir. 2006). A patentee may enter into contracts imposing certain restrictions on the purchaser's use of the invention, as Monsanto previously claimed McFarling had done in the instant case. *See* Carstensen, *supra*, at 1058. He may decline to sell the seeds altogether, instead making a bailment. *See* Chambers, *supra*, at 329. Or he may use further technological means, such as Genetic Use Restriction Technologies, that make reuse impossible. *See* Keith Aoki, *Weeds, Seeds & Deeds: Recent Skirmishes in the Seed Wars*, 11 CARDOZO J. INT'L & COMP. L. 247, 255-57 (2003). But

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Intellectual Property Rights, 31 San Diego L. Rev. 279 (1994).

[11] *See, e.g.*, Peter Carstensen, *Post-Sale Restraints via Patent Licensing: A "Seedcentric" Perspective*, 16 Fordham Intell. Prop. Media & Ent. L.J. 1053 (2006); Scott A. Chambers, *Exhaustion Doctrine in Biotechnology*, 35 IDEA 289 (1995).

he may not rely on the patent law to impose these restrictions for him.

3. Because the Federal Circuit has established (in an earlier decision between these parties) a *per se* rule that "[i]n cases in which the restriction is reasonably within the patent grant, the patent misuse defense can never succeed," *Monsanto v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004) (*McFarling II*), its decision to ignore the exhaustion principle led directly to its rejection of McFarling's misuse defense. Once the exhaustion doctrine is properly understood, McFarling is entitled to prove his patent-misuse claim on the merits without being subject to this *per se* rule.

4. On April 16, 2007, this Court invited the Solicitor General to file a brief *amicus curiae* in *Quanta Computer, Inc. v. LG Electronics, Inc.*, No. 06-937, expressing the views of the United States regarding whether certiorari should be granted on the issue of patent exhaustion. If the Court grants certiorari in *Quanta Computer*, it should do so here as well. Both cases raise the issue of whether a patentee may place post-sale conditions on the use of its patented invention. Here, as in *Quanta Computer*, no enforceable license binds the accused infringer. Here, as in *Quanta Computer*, the patented invention was put to its only reasonable use. And here, as in *Quanta Computer*, the Federal Circuit's recent erosion of the exhaustion doctrine has led to a startling expansion in the patent holder's right to control the use of his invention after its first sale.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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August 21, 2007

APPENDIX

APPENDIX A

488 F.3d 973

**United States Court of Appeals,
Federal Circuit.**

MONSANTO COMPANY,
Plaintiff-Cross Appellant,

v.

Homan McFARLING,
Defendant-Appellant.

Nos. 05-1570, 05-1598

May 24, 2007

***975**

Affirmed.

Before LOURIE, RADER, and BRYSON, Circuit Judges.

BRYSON, Circuit Judge.

This is the third time this case has been before us. In the first appeal, we affirmed the district court's entry of a preliminary injunction in favor of the plaintiff, Monsanto Company, and against the

defendant, Homan McFarling. *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed.Cir.2002) (*McFarling I*). In the second appeal, we upheld the district court's rulings holding Mr. McFarling liable for breach of contract and rejecting Mr. McFarling's counterclaims and affirmative defenses. We reversed the judgment in that case, however, holding that the liquidated damages provision in the parties' contract was an unenforceable penalty, and we remanded for a determination of Monsanto's actual damages. *Monsanto Co. v. McFarling*, 363 F.3d 1336 (Fed.Cir.2004) (*McFarling II*). After a damages trial, the district court entered an award of damages for patent infringement, rejected Mr. McFarling's arguments for vacating the judgment of liability, and refused Monsanto's request to modify the permanent injunction. We affirm on both Mr. McFarling's appeal and Monsanto's cross-appeal.

***976**

I

Monsanto developed a system for weed control that employs genetically modified crops that resist glyphosphate herbicide. Upon planting such crops, farmers can spray glyphosphate herbicide over their fields to kill weeds while sparing the resistant crops, a technique that allows for much more efficient weed control than is possible with unmodified plants. Monsanto sells the glyphosphate herbicide under the trade name Roundup and sells seeds of the genetically modified crops, in this case soybeans, under the trade name Roundup Ready.

Two patents of importance here protect aspects of Monsanto's Roundup Ready technology. First, Monsanto's U.S. Patent No. 5,633,435 ("the 435 patent") claims a plant cell containing a DNA molecule that encodes a genetically modified enzyme. That enzyme allows plants to survive exposure to glyphosphate herbicide. Second, Monsanto's U.S. Patent No. 5,352,605 ("the 605 patent") claims a plant cell containing a genetic promoter sequence that facilitates a plant's production of the modified enzyme. Although the 605 patent does not explicitly claim a seed containing a specific genetic sequence, as does the 435 patent, the parties do not dispute that Roundup Ready soybeans contain the plant cells and the promoter sequences claimed in the 605 patent.

Monsanto distributed the patented seeds by authorizing various companies to produce the seeds and sell them to farmers. Monsanto required those seed companies to obtain a signed "Technology Agreement" from purchasers. The Technology Agreement licensed the 435 and 605 patents to farmers on several conditions and required that farmers promise not to violate those conditions. Of relevance here, farmers promised not to replant seeds that were produced from the purchased seeds or to supply those seeds to others for replanting. Those promises ensure that a farmer who uses Roundup Ready seeds buys the seeds that he plants each year.

The purchasers also paid a fee to Monsanto for the license. For the time periods relevant here, Mon-

santo charged a license fee of $6.50 per 50-pound bag of Roundup Ready soybean seed. Mr. McFarling also would have had to pay a seed company between $19 and $22 for each bag of the seed that he purchased.

In 1998, Mr. McFarling purchased Roundup Ready soybean seeds from a seed company. He signed the Technology Agreement for that year and paid the required fees. In violation of the license agreement, however, he saved seeds from his 1998 soybean crop and planted those seeds in 1999. He did the same thing the next year, saving soybeans from his 1999 crop and planting them in 2000. The saved seeds contained the patented genetic traits, but Mr. McFarling did not pay the license fee for the 1999 or 2000 growing seasons.

Upon learning of Mr. McFarling's conduct, Monsanto sued him in the United States District Court for the Eastern District of Missouri, asserting that he had breached the Technology Agreement and infringed the 435 and 605 patents. The district court granted Monsanto's motion for a preliminary injunction prohibiting Mr. McFarling from continuing to plant saved Roundup Ready soybeans, and we affirmed that decision on appeal. *McFarling I*, 302 F.3d at 1300.

Monsanto then moved in the district court for summary judgment on some but not all of the pending claims-namely, the breach of contract claim, the claim of infringement of the 605 patent, and all of Mr. McFarling's counterclaims. Monsanto did not move for summary judgment on its **(*977)** 435 patent claim. In response, Mr. McFarling raised various

defenses, including patent misuse and preemption by the Plant Variety Protection Act. The district court rejected those defenses and granted Monsanto's motion in full except as it concerned damages for breach of contract and infringement of the 605 patent. With liability resolved, the parties stipulated to the amount of liquidated damages under the license agreement, and the district court entered judgment on Monsanto's breach of contract claim and on Mr. McFarling's counterclaims. The court then entered an order under Federal Rule of Civil Procedure 54(b) allowing an immediate appeal on the decided claims.

On appeal, we affirmed the dismissal of Mr. McFarling's antitrust counterclaim and the rejection of his defenses of patent misuse and preemption by the Plant Variety Protection Act. However, we vacated the liquidated damages award as an unenforceable penalty and remanded for further proceedings. *McFarling II*, 363 F.3d at 1341-44, 1352.

After our decision in the second appeal, Monsanto withdrew all of its claims other than the 605 patent claim, on which it had already secured a liability ruling; it then proceeded to try the issue of damages to a jury on that claim alone. During the trial on damages, Mr. McFarling moved for judgment as a matter of law based on his patent misuse defense, contending that the patent misuse defense was given new life by Monsanto's withdrawal of one of its two claims for patent infringement. The district court denied that motion.

During the damages trial, Mr. McFarling also moved for a directed verdict that an established royalty for his infringing conduct limited the size of a damages award. The district court denied the motion and submitted the issue of damages to the jury.

The jury returned a damages verdict of $40 per bag of saved seed, well in excess of the $6.50 per bag for which Mr. McFarling had argued, but substantially less than the $80.65 per bag (for 1999) and $73.20 per bag (for 2000) urged by Monsanto based on the analysis of its expert. Mr. McFarling again moved to limit the damages award to what he contended was Monsanto's $6.50 per bag established royalty for use of its patented technology. The district court denied the motion, adopted the jury's verdict, and awarded Monsanto approximately $375,000 in damages. The district court also permanently enjoined Mr. McFarling from future unauthorized use of the patented technology.

II

On appeal, Mr. McFarling first argues that Monsanto's withdrawal of its claim for infringement of the 435 patent undermines the rationale of our decision in *McFarling II* and requires that we revisit our rejection of his defenses and counterclaims. We disagree.

In *McFarling II*, we addressed Mr. McFarling's argument that Monsanto's license terms impermissibly restricted the use of farmer-grown Roundup Ready soybean seeds. We rejected that defense because "the licensed and patented product

(the first generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies." Thus, "given that the 435 patent reads on the first-generation seeds, it also reads on the second-generation seeds." 363 F.3d at 1343. Accordingly, we held that there was no patent misuse, because the prohibition against use of second-generation seeds was simply a prohibition against unlicensed use of the patented invention.

***978**

Mr. McFarling now seizes upon our reference to the 435 patent to argue that our rejection of his patent misuse defense was undermined by Monsanto's withdrawal of its claim for infringement of the 435 patent. Our reasoning in *McFarling II*, however, is equally applicable to the 605 patent. Although that patent does not explicitly claim seed containing a Roundup Ready genetic trait, it claims plant cells having that genetic trait, and farmer-grown Roundup Ready soybeans undisputedly contain such cells. Thus, as in the case of the 435 patent, Monsanto's 605 patent reads on both purchased and farmer-grown Roundup Ready soybeans. There is no patent misuse in the license terms for either patent.

Mr. McFarling asserts that the "unpatented germ plasm and second generation of genetically-altered soybeans is not a 'human-made' invention." But the fact that the germ plasm and the soybeans are not "human-made" is irrelevant to infringement. What is human-made are the chimeric genes claimed in the 605 patent, which are found in all of the in-

fringing seeds at issue in this case. The principles of patent law do not cease to apply when patentable inventions are incorporated within living things, either genetically or mechanically.

Mr. McFarling next argues that his rejected antitrust counterclaim has new vitality in light of Monsanto's dismissal of its 435 patent claim. Again, we disagree. In *McFarling II,* we noted that Mr. McFarling's antitrust counterclaim was simply a repackaged version of his patent misuse defense, and we affirmed the dismissal of the antitrust counterclaim on the same grounds. 363 F.3d at 1343-44. Because nothing about the withdrawal of Monsanto's claim on its 435 patent undermines the rationale for our rejection of Mr. McFarling's patent misuse defense, we adhere to our previous rejection of his antitrust counterclaim.

Finally, Mr. McFarling asks in a footnote that we reconsider our decision in *McFarling II* that the Plant Variety Protection Act does not entitle farmers to infringe patents by planting farmer-grown saved seed that is not licensed for planting. 363 F.3d at 1344. Nothing about the posture of this appeal warrants reconsideration of that aspect of our prior decision.

III

Mr. McFarling next challenges the amount of the damages award. He contends that it grossly exceeds the amount that is justified, which should be limited to the "established royalty" for Roundup Ready seeds, i.e., the "Technology Fee" of $6.50 per

bag that Monsanto charged licensees who purchased Roundup Ready seeds under its Technology Agreement.

A

By statute, damages for patent infringement are to be "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. After our remand in *McFarling II*, Monsanto elected to pursue the reasonable royalty measure of its damages. In response, Mr. McFarling argued that there is an established royalty of $6.50 per bag that should apply to his infringing conduct, and he asked the court to limit the amount of the reasonable royalty to that amount. The district court found "some legitimacy" in that argument but ultimately denied the motion and submitted the damages issue to the jury.

An established royalty is usually the best measure of a "reasonable" royalty for a given use of an invention because it **(*979)** removes the need to guess at the terms to which parties would hypothetically agree. When the patentee has consistently licensed others to engage in conduct comparable to the defendant's at a uniform royalty, that royalty is taken as established and indicates the terms upon which the patentee would have licensed the defendant's use of the invention. *Birdsall v. Coolidge*, 93 U.S. 64, 70, 23 L.Ed. 802 (1876) (an established royalty furnishes the best measure of damages); *Nickson Indus., Inc. v. Rol Mfg. Co.*, 847 F.2d 795,

798 (Fed.Cir.1988) (absent proof of unusual circumstances, such as widespread infringement that artificially depressed the established royalty, an established royalty is the best measure of a reasonable royalty); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed.Cir.1983) (same); *see also Rude v. Westcott*, 130 U.S. 152, 165, 9 S.Ct. 463, 32 L.Ed. 888 (1889) (listing criteria defining an established royalty).

Monsanto has consistently licensed farmers to use its Roundup Ready technology pursuant to the terms of a standard license agreement. For the relevant years, Monsanto agreed to let soybean farmers use the patented traits in planting and growing soybean crops and to let them sell the harvested seeds as a commodity. In exchange, farmers agreed to pay Monsanto a Technology Fee and to refrain from planting Roundup Ready seed saved from a previous season's crop and from selling Roundup Ready seed from their crop to others for planting. Those promises ensured that the farmers had to purchase the Roundup Ready seed they planted in a given year from an authorized distributor. The distributor seed companies, some of which were owned by Monsanto and some of which were independent, also charged a fee for each bag of Roundup Ready soybeans they sold.

Mr. McFarling's infringing conduct consisted of planting patent-protected seeds in 1999 and 2000 without purchasing them from a seed company licensed or owned by Monsanto. Because Mr. McFarling neither paid Monsanto the Technology Fee nor

purchased the Roundup Ready seed from an authorized distributor, the value to Monsanto of both performances provides one measure of the "reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. The parties agree that the amount of the Technology Fee was $6.50 per 50-pound bag of Roundup Ready soybean seed for the pertinent years, 1999 and 2000. Because that fee does not take into account the added obligation imposed on all authorized licensees under the Technology Agreement-to purchase seed from an authorized seed store-the trial court was correct to refuse to treat the $6.50 Technology Fee as the established royalty for a license comparable to the infringing conduct. *See Monsanto Co. v. Ralph,* 382 F.3d 1374, 1383-84 (Fed.Cir.2004).

Monsanto in effect decided that under its standard licensing program it would extract $6.50 in direct payment and would also extract an undertaking to buy seed from a seed company, which imposed an additional cost of $19 to $22 per bag on the farmers. The fact that Monsanto elected to allocate its licensing fees by obtaining a direct payment of $6.50 and ensuring a payment to the seed companies of another $19 to $22 does not mean that the royalty for its standard license was only $6.50. It means that, for a variety of economic reasons, Monsanto decided to split the royalty up into two parts and to direct part of the royalty to the third-party seed companies, which promoted and distributed Monsanto's products. The out-of-pocket cost that the farmers paid for the right to use Monsanto's technology was thus $25.50 to **(*980)** $28.50. In effect, the amount of

that cost that can be characterized as a pure royalty payment was $25.50 to $28.50 minus the modest cost of cleaning and bagging the seeds and other transaction costs.

Picking $6.50 as the upper limit for the reasonable royalty would create a windfall for infringers like McFarling. Such infringers would have a huge advantage over other farmers who took the standard Monsanto license and were required to comply with the provisions of the license, including the purchase-of-seed and non-replanting provisions. The evidence at trial showed that Monsanto would not agree to an unconditional license in exchange for a payment of $6.50, and the explanation-that Monsanto would lose all the benefits it gets from having the cooperation of seed companies in promoting Monsanto's product and controlling its distribution-is a reasonable commercial strategy.

By insisting that the established royalty is $6.50 per bag, Mr. McFarling does not acknowledge the significance of the requirement that licensees not only pay the $6.50, but also purchase the genetically modified seeds from a seed company rather than replanting saved seed. He does not argue, even in the alternative, that the court should have limited the reasonable royalty to the total amount paid by licensed farmers for patent-protected seeds. In any event, for the reasons given below it would be improper to hold that Monsanto's reasonable royalty damages are limited to $25.50 to $28.50 per bag, the total amount charged for the seeds and the Technology Fee.

Monsanto's evidence at trial showed that the requirement that farmers purchase their seed each year instead of saving seed from the previous year had particular benefits to Monsanto above and beyond the monetary payments represented by the Technology Fee and the seed prices charged by the seed companies. Monsanto's experts testified that the no-saving-seed requirement (1) decreased the risk of underreporting and the consequent reputation harm to Monsanto with farmers, (2) ensured Monsanto's knowledge of the quality of seed planted each year, and (3) provided a bargaining chip for signing up new seed companies. It is difficult to assign a dollar value to those benefits, but the benefits nonetheless justify the jury's finding that a reasonable royalty for a license to engage in conduct like Mr. McFarling's would exceed the amount of the payments made by farmers who participated in the licensing program.

In determining the amount of a reasonable royalty, it was proper for the jury to consider not only the benefits of the licensing program to Monsanto, but also the benefits that Monsanto's technology conferred on farmers such as Mr. McFarling. Monsanto's expert testified at length regarding the valuation of Monsanto's damages. He began by estimating the value conferred on a farmer such as Mr. McFarling by the use of the Roundup Ready product. Because using conventional soybeans was the most logical alternative to either licensing or infringing, that value provided a reasonable basis for estimating the advantages conferred by the use of the patented technology.

The expert testified that the use of Roundup Ready seeds increased the yield of soybeans in an amount valued at $14 to $25 per acre as compared to conventional seeds. In addition, the expert testified that the use of Roundup Ready seeds reduced the costs of weed control in an amount valued at $26 to $36 per acre as compared to conventional seeds; he based that estimate on three studies that showed cost savings for the Roundup Ready system ranging from a low of $17 to a high of $36. Even using the lowest dollar amount **(*981)** disclosed in any of the studies as the minimum amount for savings on weed control ($17), and even disregarding the expert's testimony about other possible savings associated with the use of the Roundup Ready system, those two items alone result in an estimated savings of $31 to $61 per acre as compared to conventional seeds. Given that one 50-pound bag of seed is sufficient to plant about an acre of farmland, the savings of $31 to $61 per acre was equivalent to a savings of $31 to $61 per bag of seed. Based on those advantages alone, it was reasonable for the jury to suppose that, in a hypothetical negotiation, a purchaser would pay a royalty of $40 per bag for the Roundup Ready seed. The jury's verdict was therefore justified even without considering some of the other more sharply controverted aspects of the expert's valuation opinion, such as his use of a multiplier to account for the risks to Monsanto from infringement by farmers.

In reviewing damages awards in patent cases, we give broad deference to the conclusions reached by the finder of fact. As we explained recently in another "saved seed" case, a jury's damages award

"must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence or based only on speculation or guesswork." *Monsanto Co. v. Ralph*, 382 F.3d at 1383, *quoting Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1560 (Fed.Cir.1992). In this case, we hold that the jury's verdict was supported by evidence and was not grossly excessive, particularly in light of the evidence of the savings Mr. McFarling achieved by his infringement, the benefits to Monsanto from requiring farmers to adhere to the terms of its standard licensing agreement, and the benefits conferred by the patented technology over the use of conventional seeds.

B

As a separate challenge to the damages award, Mr. McFarling argues that a new trial should be granted because the district court abused its discretion by permitting Monsanto's expert Mark Hoffman to testify at trial. Mr. Hoffman's testimony related to the amount of a reasonable royalty for Mr. McFarling's use of the invention.

Mr. McFarling asserts that Mr. Hoffman's testimony is inadmissible under the principles of *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993), and was merely a "subjective opinion as to the value of Roundup Ready seed" by a person who was neither a farmer nor an agronomist. The district court, however, ruled that Mr. Hoffman, a certified valuation analyst, was qualified to address the issue of valuation. The court found that the objections to Mr.

Hoffman's testimony "go to whether the jury should believe the witness or credit his opinions, instead of to whether the opinions have a reasonable basis and meet the *Daubert* requirements." In light of Mr. McFarling's objections, we hold that the district court did not abuse its discretion in admitting Mr. Hoffman's testimony. We therefore uphold the trial court's judgment as to the quantum of damages.

IV

The district court enjoined Mr. McFarling from infringing the 605 patent by planting any seed harvested from a crop of Roundup Ready soybeans, "except that Mr. McFarling may plant Roundup Ready soybeans acquired from any lawful dealer, but to do so McFarling must sign any applicable technology agreement required by Monsanto." Monsanto objects to that clause in the court's decree because Monsanto **(*982)** understands the clause as requiring it to issue a standard license to Mr. McFarling if he agrees to comply with the license terms.

We do not understand the injunction to compel Monsanto to license its technology to Mr. McFarling if it chooses not to. Rather, the injunction simply reflects that if Monsanto enters a binding technology agreement with Mr. McFarling through a dealer, then Monsanto will have licensed Mr. McFarling to engage in conduct that would otherwise infringe the 605 patent; the injunction will not prohibit that licensed conduct.

Monsanto's real concern may be that, in light of the complexity and scale of its distribution and li-

censing system, it may enter into a binding license with Mr. McFarling even if it does not wish to do so. Thus, Monsanto requests that we direct the district court to enjoin Mr. McFarling from obtaining Roundup Ready soybean seed absent "express authorization from Monsanto."

We decline that invitation. The district court acted well within its discretion in not enjoining conduct that would not infringe Monsanto's patent. It is up to Monsanto, not the district court, to ensure that Monsanto's representatives do not enter into a binding contract with Mr. McFarling absent "express authorization from Monsanto" or whatever other licensing standard Monsanto wishes to adopt. We therefore reject Monsanto's challenge to the district court's injunction.

Each party shall bear its own costs for this appeal and cross-appeal.

AFFIRMED.

APPENDIX B

Only the Westlaw citation is currently available.

United States District Court,
E. D. Missouri, Eastern Division.

MONSANTO COMPANY,

Plaintiff,

v.

Homan MCFARLING,

Defendant.

No. 4:00CV84 CDP.

June 23, 2005

ORDER AND MEMORANDUM

PERRY, J.

This is one of a number of "seed-saving" cases that Monsanto Company filed against farmers who had saved and replanted soybean seeds containing Monsanto's patented Roundup Ready technology. After partial summary judgment was granted and the parties had taken two interlocutory appeals, the issues of patent infringement damages and willfulness were tried to a jury. On April 28, 2005, the jury returned a verdict assessing Monsanto's damages at

$273,188 and finding that plaintiff Homan McFarling's infringement was willful.

The case is now before me for entry of judgment, including Monsanto's request for treble damages, prejudgment interest, attorneys' fees, costs, and a permanent injunction. I will grant a permanent injunction, and will enter judgment for actual damages in the amount of $273,188, as found by the jury. I will also enter judgment for prejudgment interest in the amount requested by Monsanto, $103,130, and will tax costs in favor of Monsanto in the amount of $20,303.25. I will deny Monsanto's request for treble damages or any other damages enhancement for willful infringement, and I will deny Monsanto's request for attorneys fees, as I find that McFarling's conduct here does not rise to the level of egregious behavior for which those patent remedies were designed.

Background

Homan McFarling purchased and planted Roundup Ready soybeans in 1997 and 1998. He signed Monsanto's required technology agreement, acknowledging that the seeds contained patented technology and acknowledging that he would not save and replant any seeds generated from the use of the purchased crop. Despite signing the agreement, he saved and replanted seeds from each crop year. Monsanto brought this suit in January of 2000, and so McFarling's use of saved seeds in 2000 took place after the lawsuit was filed. At a preliminary injunction hearing held in April 2001, McFarling testified that he intended to use saved Roundup Ready seed

again in 2001 unless enjoined. After the Court enjoined him from doing so, he did not replant any more saved Roundup Ready soybean seed.

Monsanto brought claims for infringement of two patents, breach of contract, conversion and unjust enrichment. McFarling filed counterclaims alleging violations of the Plant Variety Protection Act, the federal antitrust laws, and various other issues of patent invalidity.

The litigation of this case was protracted, in part because of the novelty of this type of patent and in part because of the unsettled state of the law. The concept that a farmer could infringe a patent by growing a plant from seed he had harvested from his own crop was novel. There was an apparent conflict between the Plant Variety Protection Act, which allowed farmers to save protected seed for their own use, and utility patent law, which did not. I stayed certain aspects of the case for several months because a PVPA case was then pending before the United States Supreme Court. When it was decided, *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 122 S.Ct. 593, 151 L.Ed.2d 508 (2001), held that nothing in the PVPA prevented utility patents from being issued for plants, which had been an important and legitimate issue in this case. Additionally, there were two interlocutory appeals. The first followed my grant of the preliminary injunction. *Monsanto v. McFarling*, 302 F.3d 1291 (Fed.Cir.2002). The Court of Appeals affirmed the preliminary injunction and, in a two-to-one decision, upheld the forum selection clause contained in Mon-

santo's technology agreement. The second interlocutory appeal followed my grant of partial summary judgment. *Monsanto v. McFarling*, 363 F.3d 1336 (Fed.Cir.2004). The Court upheld summary judgment in favor of Monsanto on all of McFarling's counterclaims and defenses. It also upheld summary judgment in favor of Monsanto on one of its contract claims as to liability, but found that Monsanto's liquidated damages clause, under which I had awarded contract damages, was invalid. That appeal did not consider whether my partial grant of summary judgment as to liability on one of the patent claims was valid.

After the case was remanded the last time, Monsanto elected to dismiss all claims other than its Count II, which was for infringement of the '605 patent. I had already granted summary judgment on liability on that Count, so the only issues submitted to the jury were those of damages and willfulness. After a three-day trial, the jury returned its verdict calculating a reasonable royalty as $40 per fifty-pound bag of seed, for a total actual damage award of $273,188. It also found that McFarling's infringement had been willful. Monsanto has now filed its motion for attorneys fees, costs, prejudgment interest and treble damages, and at trial it renewed its request for a permanent injunction.

Permanent Injunction

Title 35, U.S.C. § 283 allows for the grant of injunctions "in accordance with the principles of equity ... on such terms as the court deems reasonable." "It is the general rule that an injunction will

issue when infringement has been adjudged, absent a sound reason for denying it." *Richardson v. Suzuki Motor Co. Ltd.*, 868 F.2d 1226, 1247 (Fed.Cir.1989). "Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted." *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed.Cir.1988) (internal citations omitted). The Court must, of course, consider the equities of the particular case in deciding whether to grant injunctive relief.

Many courts have recognized that future infringement "may have market effects never fully compensable in money." *Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1457 (Fed.Cir.1988); *Jeneric/Pentron, Inc. v. Dillon Company, Inc.*, 259 F.Supp.2d 192, 195 (D.Conn.2003) That is especially true in a case such as this where, even following a trial, it is not clear that damages can ever be calculated precisely for infringement of a patent on a self-replicating invention. This difficulty in measuring future damages shows that a permanent injunction is particularly appropriate in this case, and so I will enter a permanent injunction enjoining McFarling from further violation of the '605 patent. Monsanto's request for a broader injunction, which would enjoin McFarling from ever using Monsanto's Roundup Ready soybeans, is not supported by the evidence or by the law. McFarling has previously complied with Court orders, and there is no reason to believe that he would violate the narrower injunction.

Treble Damages and Attorneys Fees

Monsanto seeks treble damages, because of the jury's finding that McFarling's infringement was willful, and attorneys fees, arguing that this is an "extraordinary" case. Although these two types of awards are authorized under separate sections of the patent law, I will consider them together because I believe the factual and equitable principles that underlie their grant or denial are similar.

Under 35 U.S.C. § 284, when there is willful patent infringement, the Court may "increase the damages up to three times the amount found or assessed." There is a two-step process for determining whether damages should be increased under this provision. *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed.Cir.1996). The first step is to determine whether the infringer has engaged in conduct upon which increased damages may be based. The jury's finding of willfulness normally satisfies this test. The second step is for the court to determine the amount to increase the damages based upon a totality of the circumstances. "The paramount determination in deciding to grant enhancement and the amount thereof is the egregiousness of the defendant's conduct based on all the facts and circumstances." *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed.Cir.1992). In making this determination, the court must consider "factors that render defendant's conduct more culpable, as well as factors that are mitigating or ameliorating." *Id. Read* examined a number of cases and listed nine factors that may appropriately be considered, including:

(1) whether the infringer deliberately copied the ideas or design of another;

(2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed;

(3) the infringer's behavior as a party to the litigation;

(4) defendant's size and financial condition;

(5) closeness of the case;

(6) duration of the defendant's misconduct;

(7) remedial action by the defendant;

(8) defendant's motivation for harm; and

(9) whether defendant attempted to conceal its misconduct.

Read, 970 F.2d at 827.

The Court may also award attorneys fees in an "exceptional case." 35 U.S.C. § 285. Monsanto seeks attorneys fees in the amount of $468,094.85.

The decision to award attorney fees under 35 U.S.C. § 285 in "exceptional" cases is discretionary with the trial court judge. *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed.Cir.1989). "Among the types of conduct which can form a basis for finding a case exceptional are willful infringement, inequitable conduct before the P.T.O., misconduct during litigation, vexatious or unjustified litigation, and frivolous suit." *Id.* at 1551.

Amsted Industries Inc. v. Buckeye Steel Castings Co., 23 F.3d 374, 376 (Fed.Cir.1994). Again, the cases have described a two-step process for determining whether to award fees: the court must first determine whether a case is exceptional, and then the court must determine whether attorney fees are appropriate. *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1460 (Fed.Cir.1998).

There is no doubt that McFarling, at least in 2000, knew that he was infringing Monsanto's patent and knew that Monsanto intended to enforce the patent. He has testified at various times that he continued to save and replant the seed because he had always saved seed, because he believed that Monsanto could not keep farmers from farming the way they had always farmed, and because he made more money by saving and replanting his seed.[1] He has admitted that he did not know about the Plant Variety Protection Act or other specifics of patent or antitrust law.

Despite all these admissions, I do not believe that this is an extraordinary case for which attorneys fees should be granted, nor do I believe that trebling or otherwise increasing the damages awarded by the jury is appropriate. McFarling did not attempt to conceal his replanting of the seeds, and he readily admitted having done so when questioned by Monsanto's investigators and during this litigation. He did not deliberately copy anything, he

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[1] Monsanto argues that these explanations are inconsistent, but I see nothing inconsistent about them.

simply farmed the way he had always farmed. His conduct during the litigation has been entirely appropriate: he believed that there must be a defense to Monsanto's claim, sought counsel, and even gained the assistance of the Mississippi State University Extension Service in the case. Although his defenses were ultimately unsuccessful, some of them raised close questions of law. His counsel made legitimate and good-faith arguments challenging the patent. McFarling's stated intent to continue replanting saved seed unless enjoined was consistent with these defenses, and was made before the Supreme Court decided the *J.E.M.* case. The ability to harvest and replant seeds is, of course, the essence of farming, and it is a time-honored practice even in modern agriculture. It is not in the least surprising that a farmer such as McFarling would legitimately and in good faith question the right of any seed or technology company to change the way farmers have done business for centuries.

Monsanto's Roundup Ready technology, of course, has changed the way farmers have done business for centuries. It is a truly revolutionary technology, as demonstrated by its market success. In 1997 experts estimated that only about 15% of soybeans then being planted in the United States used the genetically modified seeds. By the time of the 2005 trial, the number had risen to well over 90%. Monsanto allows other seed companies to use the technology, so the success of Monsanto's technology has allowed these seed companies to increase their sales. Monsanto's technology thus benefitted

these unrelated seed companies, just as it benefitted the farmers by increasing their yields.

Monsanto's selected marketing method appears unique. Monsanto decided to charge the seed companies a relatively low license fee per bag of seed sold by the seed companies, but then to restrict the end users'-the farmers'-use of their own crops. In other words, "the Technology Agreement does not impose a restriction on the use of the *product purchased* under the license, but rather imposes a restriction on the use of the *goods made by* the licensed product." *McFarling II*, 363 F.3d at 1342-1343 (emphasis added). This is certainly a non-traditional licensing arrangement. Monsanto presented evidence of its reasons for choosing this marketing model, and the method was carefully chosen to increase Monsanto's revenue over a period of years to increase its ability to recover some of its extensive research and development investment. Had Monsanto simply charged the producing seed companies a much higher one-time or per-unit royalty for their use of the technology in the product they sold, the seed companies would have had to charge farmers much higher prices for the seed. This higher price to farmers would have undoubtedly slowed the success of the product. When the modified seed was new, it is unlikely that farmers would have been willing to pay a significant premium for the modified seed, and Monsanto's marketing studies confirmed this. Further, any farmers who were willing to pay the higher premium would probably have chosen to do so only once, and would have saved and replanted their seed. This would have caused Monsanto to lose con-

trol of its technology, which it legitimately did not want to do. The marketing model certainly makes sense from Monsanto's perspective, but it is understandable that farmers found it suspicious.

The practical issues raised by this unique product and its unique marketing method are demonstrated by the evidence in the case. Monsanto undertook a massive marketing and educational campaign directed to farmers. In addition to touting the value of the seed, they also stressed the restrictions, and threatened to and did sue numerous farmers. These suits against farmers such as McFarling who chose to fight Monsanto-and the farmers' lack of success-have been widely reported in the farm press. This publicity has benefitted Monsanto and the seed companies. The vast majority of cases filed by Monsanto against farmers have been settled before any extensive litigation took place, and the incidents of improper replanting have decreased.

It is not surprising that a unique product with a unique marketing method that revolutionized soybean farming would also give rise to many novel legal issues. Although the *J.E.M.* case arose in a different context, it was not unreasonable for farmers to argue that the provisions of the Plant Variety Protection Act prohibited the type of patent here, or at least controlled on the issue of seed saving. Although Monsanto's interpretation of the law has prevailed, that was not necessarily a foregone conclusion. Additionally, at least one judge on the Federal Circuit believed that the forum selection clause used by Monsanto in all of its technology agreements was not

valid. *Monsanto v. McFarling*, 302 F.3d 1291, 1299 (Clevenger, J, dissenting)(Fed.Cir.2002) (*McFarling I*). The Federal Circuit also noted that its case law had not addressed the status of "restrictions placed on goods made by, yet not incorporating, the licensed good" under certain patent defenses. *See McFarling II*, 363 F.3d at 1343. Finally, of course, the liquidated damages provision that Monsanto crafted has been held to be invalid. *See McFarling II*, 363 F.3d at 1344-1350.

Monsanto turned out to be wrong about at least one aspect of its marketing plan-the liquidated damages clause. By one vote on the Federal Circuit, Monsanto might have been wrong about another aspect-the forum selection clause. Other aspects of the plan presented legal issues of first impression. I do not believe that McFarling, in his attempts to vigorously litigate the patent and defend what he argues is his lifelong way of doing business, acted in bad faith or otherwise in such a way that exemplary damages or attorneys fees should be awarded.

The market and the legal system have upheld Monsanto's claims for the most part. Farmers, for the most part, have seen the handwriting on the wall and have agreed to Monsanto's terms. Those who initially did not agree have, for the most part, settled their cases when Monsanto sued them. Monsanto's marketing campaign and its aggressive enforcement of its patent rights against infringing farmers has had very good results for Monsanto. It seems unnecessary at best, inequitable at worst, to further punish one farmer who chose to mount a legitimate legal

challenge.[2] I do not believe that McFarling's conduct here meets the type of exceptional case or willful violation that the remedies in Sections 284 and 285 were intended to remedy. While I am not disagreeing with the jury's finding of willfulness, because there is no doubt that McFarling knew he was violating the patent, at least in 2000 after he had been sued, I do not believe that imposing increased damages or attorneys fees in this case would be just.

Prejudgment Interest

Monsanto seeks prejudgment interest in the amount of $103,130. Monsanto has submitted a schedule showing that this interest was calculated at prime rate, compounded annually, and beginning on May 1, 1999 and May 1, 2000 and ending on May 17, 2005.

General Motors Corp. v. Devex Corp., 461 U.S. 648, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983), held that prejudgment interest should ordinarily be awarded in patent cases, but that such an award is not automatic. "For example, it may be appropriate to limit prejudgment interest, or perhaps even deny it altogether, where the patent owner has been responsible

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[2] McFarling's conduct stands in stark contrast to that of some other farmers, such as Kem Ralph, who destroyed evidence, repeatedly lied, and refused to comply with court orders. *See Monsanto v. Ralph*, 382 F.3d 1374 (Fed.Cir.2004). McFarling complied with the Court's injunction, participated in discovery, and appealed rulings he disagreed with. There is no element of bad faith in any of this conduct.

for undue delay in prosecuting the lawsuit. There may be other circumstances in which it may be appropriate not to award prejudgment interest." *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 967 (Fed.Cir.1986). Applying these standards, and having considered the parties' arguments, I conclude that Monsanto is entitled to prejudgment interest in this case.

Taxable Costs

After McFarling filed his brief in opposition to Monsanto's request for taxable costs, Monsanto reconsidered its request and removed certain items that are not properly taxable under 28 U.S.C. § 1920. I have carefully reviewed the items in Monsanto's revised request for costs and find that they are all properly taxable. I will therefore direct the Clerk to tax as costs the total amount of $20,303.25, which consists of deposition expenses in the amount of $5,825.30, costs of copies for use at trial in the amount of $10,968 .95, and costs of the transcript in the amount of $3,509.00.

For the reasons set forth herein,

IT IS HEREBY ORDERED that Monsanto's motion for attorneys fees, costs, prejudgment interest, and treble damages [# 285] is granted in part and denied in part, as follows:

Monsanto is entitled to actual damages in the amount of $273,188, as set forth by the jury's verdict, along with prejudgment interest in the amount of $103,130, for a total judgment of $373,318.

Monsanto's request for entry of a permanent injunction is granted, with modifications.

Monsanto's request for enhanced damages and attorneys fees is denied.

The Clerk of Court shall tax as costs the sum of $20,303.25.

A separate judgment, including a permanent injunction and the damages awards set out above, is entered this same date in accordance with this memorandum and order.

APPENDIX C

Only the Westlaw citation is currently available

United States District Court,
E.D. Missouri, Eastern Division.

MONSANTO COMPANY,

Plaintiff,

v.

Homan MCFARLING,

Defendant.

No. 4:00-CV84CDP

April 18, 2001

PERRY, J.

REPORT OF PROCEEDINGS PRELIMINARY INJUNCTION HEARING

Be it remembered and certified that heretofore on April 18, 2001, the same being one of the regular judicial days in and for the United States District Court for the Eastern District of Missouri, Honorable Catherine D. Perry, District Judge, Presiding, the following proceedings were had in open court, to-wit:

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> THE COURT: Let me just verify with counsel before we begin. There were two photocopied deposition portions that the plaintiff gave me yesterday and here they are. I didn't think I'd given them back to you yet, but those will be given back to you at the end of the day so we're not keeping any of the original or any of the photocopies of the depositions in the Court file.

All right. Let me tell you what I'm going to do in this case. I'm now going to read my findings and conclusions and decision on the pending motions into the record. This will be the opinion entered.

For appeal purposes and because the Court of Appeals has requested us to do this, when we use this procedure, I will request the court reporter to

prepare a transcript of what I am about to say now, this portion. She will produce it, place it in the Court file and provide each of you a copy of it at no charge to you because it is my opinion.

Any of the rest of the transcript, of course, you'd have to pay for.

So I will not be writing a separate opinion, although I will be entering a couple of orders in accordance with the findings and conclusions I'm about to read into the record.

Let me just tell you at the beginning, I am going to enter the preliminary injunction requested by Monsanto, so as you listen to me read this, you don't have to be sitting here wondering what I'm going to do. I'm telling you that now.

The other conclusions I am making is I am going to continue the stay of this case pending the Supreme Court decision, except all I'm going to stay are dispositive motions and trial. I'm going to give you all a period to complete the discovery that remains to be necessary in this case and I hope I can resolve any of the pending-any issues so that you all will know what you need to do going forward and give you a reasonable amount of time to do that.

So those are the conclusions or the bottom line. Let me tell you the reasons.

The plaintiff has filed its motion for a preliminary injunction, as you all know. We've spent the last three days ~~hearing~~ evidence and argument on that motion and on other matters. Both sides have filed voluminous materials in terms of briefs and supporting evidence, as well as the evidence pro-

duced here at the hearing. In deciding whether to issue a preliminary injunction, I must consider the four factors set out in the *Dataphase* case and it's the same under anybody's standards. The *Dataphase* is the Eighth Circuit case but the standards are essentially the same.

I have to consider likelihood of success on the merits, the threat of irreparable harm to be suffered by the person seeking the preliminary injunction, the balance of the equities and hardships, in other words balancing the hardships to be suffered by the person enjoined against, the threat of irreparable harm to the person seeking the injunction, and I must also consider the public interest.

I have considered all of those factors in reaching my decisions here today. The facts of this case are not really in dispute much at all. The evidence presented to me shows that the defendant purchased Monsanto's Roundup Ready soybean seeds in 1997 and again in 1998, when each time both in '97 and in 1998, he signed a technology agreement.

That agreement acknowledged the application of the United States patent laws. It licensed Mr. McFarling to plant the seeds he purchased for only a single season. In that agreement, he agreed not to save any crop or any progeny of his crop for replanting in the following crop year, and he paid a technology fee, and he acknowledged that should he violate the agreement, Monsanto would be entitled to certain liquidated damages.

The plaintiff's complaint alleges breach of the licensing agreement and infringement of two patents. It's the allegations related to actions taken in

the 1999 crop year. The evidence shows that Mr. McFarling did plant the Roundup Ready in 1997, and then again he planted some in 1998. The evidence before me shows those were things he purchased.

Now there's no evidence as to whether he saved any seeds in '97.

After the 1998 year, he then saved some of the seed harvested from his crop, of the Roundup Ready soybeans, and replanted them during the 1999 crop year. After that, in April of 2000, before the 2000 crop year was planted, Monsanto tested Mr. McFarling's fields and that testing showed that Roundup Ready soybeans had been planted in all of the fields tested.

After that testing in April of 2000, Mr. McFarling then planted his 2000 crop year and he planted more saved seed that he had saved this time from the 1999 crop. And so he did again plant Roundup Ready soybeans that he had saved from an earlier crop year and for which he had not bought new seeds or paid a technology agreement-I mean paid a technology fee.

The evidence before me showed that in 1999 and 2000, he also bought some new Roundup Ready seeds. There's no evidence of how much, and I know there's a dispute in this case about whether Mr. McFarling planted conventional soybeans, other than Roundup Ready beans in the '99 and 2000 crop year, and in looking at my notes, to try to understand this dispute, I see that when Mr. McFarling testified before me, he didn't say. He was asked, and I made a note why was the question posed this way

and I can only assume it was posed that way on purpose.

He was asked if he planted Roundup Ready beans in '97, '98, '99 and 2000. He acknowledged that he did and then he was asked, "And you also planted some conventional beans?" And he said, "Yes." That was not tied to any year, and so for all I know, he was testifying that he planted conventional beans in 1997 and '98, which I think is undisputed so there has been no evidence before me from which I can make a finding on that one way or another, but it was significant enough when the testimony came in that I noted that the question had been carefully asked to avoid stating whether he actually planted conventional seeds in '99 and 2000.

In any event, I don't need to resolve that. That's not really significant for what we're doing here. The defendant has admitted that he planted the beans that were covered by the technology agreement.

After that planting, in the crop year 2000, and I don't know when that was-there's been no evidence as to when soybeans are planted in Mississippi or when Mr. McFarling has planted his crops or when he might plant his crops this year, but I can draw an inference that it's sometime in the spring and probably sometime before the summer, but nobody has ever thought that I needed to know that information so I don't know that information. And I don't need to know it for what I'm doing here today.

To go on with the findings of fact, in March and April of this year-let me back up.

I talked about the testimony regarding the planting of the Roundup Ready beans in '99 and 2000. Mr. McFarling testified in his deposition, which took place in February of this year, 2001, that he had planted saved seed in 1999 and 2000, which is consistent with his testimony here, and he also testified at that deposition that he had saved seed from the 2000 crop year which he did intend to plant again in the 2001 crop year.

He testified consistently here before me and said he would replant if he's not told he cannot do so. I recognize as counsel pointed out in his argument, until he puts the crop in the field, he could always change his mind but right now he has indicated a clear intention to do so.

After the deposition, in March and April of this year, Monsanto tested defendant's fields again, and again found evidence that Roundup Ready beans had been planted in all fields. This was residue from the 2000 crop.

Since Mr. McFarling has testified that he has planted saved seeds, that he did not-that he planted saved seeds on which he did not pay a technology fee, there is no need for me to consider in any detail the various arguments that have been raised regarding the validity of the testing that was done.

That may be an issue at the ultimate trial of this case. From the evidence I have heard here today or over the last three days, I believe the testing was properly done and that it was admissible evidence. I find it credible regarding the method of the testing and the statistical sampling, but the defendant is free to challenge that again.

All of these findings, of course, are solely for the purpose of the preliminary injunction. None of them are findings for the purpose of trial, summary judgment or anything else, but for purposes of this hearing. Since the defendant admits that he did in essence violate the contract and the patent, I don't need to resolve these technical issues about whether the testing was done properly.

I also find from the evidence presented to me that Monsanto invested considerable money in the form of research and development over many years in developing the Roundup Ready technology. I am not going to attempt to summarize the scientific evidence or what is actually covered by the patents at this time. I may discuss that a little bit in my conclusions of law, but I don't think it's necessary for me to try to detail how it works.

I think it was explained pretty clearly here at trial and I'm sure the lawyers and the parties involved in this case understand it far better than I do, but the bottom line is if you plant Roundup Ready soybeans, you can spray either Monsanto Broad Spectrum Herbicide Roundup or another manufacturers' version of glyphosate over the top of the beans and it won't kill the soybeans but it will kill the weeds and that is a very good technology as everyone has agreed.

This technology is covered by two patents which have been referred to in the evidence and in the complaint as the '435 and the '605 patents. There are disputes as to what those patents mean and I believe those are legal issues and I'll talk about those a little bit in a moment.

But the evidence presented to me shows that Monsanto has invested-the evidence I have says hundreds of millions of dollars or maybe hundreds of millions of dollars in this technology in developing it.

I also find that Mr. McFarling has many alternatives in terms of sources of soybeans available to him. I heard that there were over 200 varieties of soybeans available and useful to be purchased and planted in the state of Mississippi. There are over 200 companies who sell soybeans. There are numerous conventional soybeans on the market. Some of those soybeans on the market do allow spraying certain herbicides on top of the plants, under different technology than that at issue in this case.

The evidence shows there are advantages and disadvantages of all of the varieties, but there are many commercially feasible choices of soybeans for Mr. McFarling.

Some of these other varieties may not be as good or as profitable for him, but they are feasible alternatives and there's no impediment to his using them. There was no evidence in this case that Mr. McFarling had laid off workers or changed equipment or anything like that that would not allow him to go back to planting conventional soybeans, and at least according to his lawyer's arguments, although he didn't say this, if his lawyers are correct that he's been planting conventional soybeans every year, then that would be-then obviously he can do it and there's no impediment to it. There's certainly been no evidence presented to me that there was any impediment to it.

Additionally, on the evidence presented to me here at this preliminary injunction hearing, I see no evidence so far of any market control or dominance by Monsanto that would invalidate the patent. The evidence before me has shown that once Roundup Ready soybeans were introduced into the marketplace, they had a phenomenal growth in distribution and use. It is a large growth in a short period of time, but that in itself to me does not show market control or dominance.

So with those findings I now turn to the conclusions of law. Some of these things I'm saying are probably mixed findings of fact and conclusions of law, but I trust that there's no confusion about what I am saying here and if I mistakenly call something a finding that should be a conclusion, or call it a fact when it should be a legal issue, I will expect it to be treated as if I had properly designated it.

Considering the four factors for grant of a preliminary injunction, I find that the plaintiff has shown that it is likely to succeed on the merits. The patents are presumptively valid, the contract is presumptively valid. Mr. McFarling signed the contract, and he's not provided any legally valid excuse for being allowed to ignore it and violate it, certainly over the last-in the 2000 crop year and the 2001 crop year.

I don't think-there's no real factual defense in this case. There are legal defenses that have been raised, but at this point, I see nothing that raises a substantial question about the validity of these patents. It may be that Mr. McFarling can develop these defenses at trial but he has not done so, so far, and

nothing here convinces me that plaintiff is not likely to succeed on the merits.

To the contrary, I think plaintiff is likely to succeed on the merits. The antitrust or the patent misuse defenses that have been raised simply-they do raise some interesting arguments but I don't believe there's anything in the evidence presented that shows me that there's a substantial question.

And again, I just don't see enough on this record to even raise a substantial question.

As I see it, in terms of the patent validity, I think the defendants really, from what I hear and see today, it looks to me like the defendant's only chance of showing that he is likely to succeed on the merits is if the Supreme Court changes the law.

The prevailing law is the law set out in the Federal Circuit in the *JEM* case. In that case, the Federal Circuit said that the Plant Variety Protection Act did not prohibit a patent on a plant variety, I think is what they said and to the extent we're trying to interpret that and apply that to this case, it appears to me that if the Federal Circuit remains-if their holding in *JEM* remains the law of this land, then plaintiff is clearly likely to succeed on the merits.

If, however, the Supreme Court changes the prevailing law, then defendant may have some hope of prevailing in this case, because then they may interpret the Plant Variety Protection Act in a way that may give defendant some legal defenses in this case.

I can't say that that is likely to happen. In fact I'd have to say that it's unlikely to happen. The Federal Circuit certainly rejected that argument out of hand. All the likelihood shows that the Federal Circuit would not change its mind and there is no reason for me to believe that the Supreme Court would change the law, so there's been no showing on that issue, that the defendant is likely to succeed and in fact, I find from the evidence that the plaintiff has amply shown likelihood of success on the merits.

Let me again reiterate what I said before. These findings and conclusions are for purposes of this preliminary injunction only. They are not saying, however, I will rule on motions for summary judgment or on trial issues. These are findings based on the evidence that has been presented to me today and the legal argument that have been presented to me today because I have to make a decision now because the plaintiff has asked for a preliminary injunction.

This does not mean that I am holding that Monsanto wins this case. This case is not over, and it will not be over until after the Supreme Court has ruled. So I want to make that as clear as I possibly can. I know you all should understand that but sometimes lawyers come back to me and say well Judge, you already found this or you already held that. These findings and conclusions apply only to this motion.

The second issue, threat of irreparable harm, I do think that Monsanto has shown the threat of irreparable harm if Mr. McFarling is allowed to plant his saved seed without complying with the licensing

agreement. Monsanto has shown that it is concerned about losing control of the patented product.

If Mr. McFarling is allowed to do this, that would encourage others to also violate the law and that there would be potentially many, many costs that could never be recouped, incurred by Monsanto and that therefore that would make the harm, harm that would not apply or not be compensable simply in money damages.

Additionally, and I said this before, and to the extent I get a little hot tempered, I hope the lawyers will understand, I can't help it, it's my personality but it's not really, I'm not trying to be angry with you all, but the defendant has said repeatedly throughout this case that he'll go broke if this contract is enforced, and if that's not the best argument that the plaintiff will suffer irreparable harm if I don't enjoin him, I don't know what is.

He's saying he's going to be judgment proof. He has said that from the first day that anything was filed in this case, and if in fact he's not ever going to be able to pay a judgment, then for me to say, "Oh don't worry, go ahead and violate the contract and the patents because maybe you'll be right in the long run and if you're wrong, we can give Monsanto a judgment of however many dollars it is, and they'll be adequately compensated by later on Mr. McFarling can pay them back what he should have paid them in the beginning."

Mr. McFarling has told me time and time again he is not going to be able to pay it back. He doesn't think he can and if that's the case, it may have been just an argument-lawyers make lots of ar-

guments-but if that's the case, that shows that money damages would not be adequate.

I also think for the other reasons I've stated that money damages would not be adequate, even if the judgment were fully-a potential judgment in the future would be potentially collectible.

Turning to the balance of the harms, I've found as a fact and I believe it's very true that Mr. McFarling has many sources of soybeans available to him, although he may be harmed by not being able to plant the best or the one that he thinks is the best for his particular location. I believe if he turns out to have been harmed by that, that he can be compensated in money damages in the future. I do not believe that he has no alternatives. I believe he can plant something else. He has planted conventional soybeans for many years in the past with good yields.

I realize this is a bad time for the farm economy, but, you know, I grew up in farm country. I know full well that there aren't a whole lot of good times in farm country and when there are good times, they're always followed by bad times, and that's the nature of the business. This is a particularly bad time but it may be better in two years-I don't know-so that is not really something I can base a decision on in this case. The farm business has its ups and downs as everyone knows.

I will require that Monsanto post a bond to cover any losses that Mr. McFarling might suffer in the next two planting seasons on the possibility that we would not be able to get this case resolved for as many as two planting seasons. I would hope perhaps

the Supreme Court will decide promptly next year and we could resolve the case before the next planting season, but I don't know that that's true so I'll require a bond that I believe would cover any crop losses for a couple of planting seasons but I don't believe that the balance of harm favors that, Mr. McFarling. I think it favors Monsanto and finally to talk about the public interest, this is a mixed bag.

I think the public interest is always somewhat mixed on preliminary injunction cases. I agree with the defendants that the public interest as expressed in the public policy of our country does favor keeping the family farmer in business. I think there are numerous federal policies that the defendants have cited and others that they could cite that show that Congress and the legislative and executive branches of the government have done many things to favor farmers and try to keep them in business.

That public policy, however, doesn't mean that as a judge, I can simply ignore the law and change it to keep one farmer from going out of business, and I'm not convinced that he would.

The other parts of the public interest favor the plaintiff. The public interest favors freedom of the marketplace, people letting the marketplace determine the appropriate prices and what is appropriate economically. If you look at the evidence that's been presented to me, setting aside the antitrust complaints which I think sort of are evolving antitrust complaints as this patent misuse thing, the fact that this Roundup Ready could have grown in usage so much over such a short period of time indicates that

the marketplace is working the way it should and that it's not overpriced, frankly.

So I think the public interest in this case weighs in favor of the plaintiff. The public interest also favors people complying with contracts that they sign and it favors enforcing patents that have been issued, if they are valid, and as I've said before, I believe that the plaintiff has shown the likelihood of success on the merits, so although I'm not unsympathetic to the defendant's arguments about public interest favoring farmers, that does not mean I should change the law.

So those are the reasons that I will grant the preliminary injunction.

I have a preliminary injunction here which I have prepared and I'm going to read it to you and then I'll sign it and I'll have a copy of it made for you. It says that in accordance with the findings and conclusions read into the record this day, the plaintiff's motion for preliminary injunction is granted. Until further order of this Court, defendant Homan McFarling and all persons acting on his behalf are

1. Prohibited from planting any Roundup Ready crop seed in defendant's possession or under defendant's control wherever situated.

2. Prohibited from moving, collecting, transferring or obtaining in any other manner, any patented Roundup Ready genes or crop seed.

3. Prohibited from cleaning, conditioning, or entering into any contracts or other agreements to clean or condition any Roundup Ready seed covered under Monsanto's patents.

4. The defendant may sell any Roundup Ready seed that is currently in his possession, as a commodity, and not for replanting or at his option, he may surrender all such seed to Monsanto for storage at Monsanto's expense, pending final adjudication on the merits of this case.

It is further ordered that this injunction shall become effective immediately and Monsanto shall post a bond in the amount of $200,000, no later than Friday, April 20, at 12:00 noon. If the bond is not posted by that date, the injunction will be dissolved and will have no effect.

I am dating this today, as of 3:36 P.M. And I will provide you with copies of it.

I need to make a couple of further comments that relate to the preliminary injunction that I neglected to say. I am including in this injunction the broad scope that the defendant cannot go out and buy Roundup Ready seed and plant it. I believe that that is necessary to protect the plaintiff's patent and contract rights in this case, because it still simply is going to be unenforceable otherwise and the plaintiff-and Mr. McFarling, the defendant, through his demonstrated willingness to violate the license agreement should not-Monsanto should not be required to sell new seed to him when he's already told everybody that he will violate, and that there are plenty of other alternatives so that's why it's as broad as it is.

When you get this copy you will see I changed the amount of the bond to be $200,000. I was trying to estimate the potential damages to Mr. McFarling. I think this is high for two crop years. I was going to

do it lower, and then tell him to come back and ask for an increase in the bond next year but I believe it will be more expeditious to simply require a larger bond and I believe that Monsanto is capable of posting this bond, and so it is in the amount of $200,000.

Now when I finish here today, I will have the clerk make a copy of this and provide you with a copy of it.

But I want to talk about the other issues remaining in the case.

Technically, I'm granting the motion for preliminary injunction. I'm granting the motion to reconsider the stay order to a limited extent. I'm also denying it. I have reconsidered it and I'm partly lifting the stay. I'm going to stay the dispositive motions and trial of this case. But I am going to allow the parties to complete their discovery.

I frankly hadn't thought that through when I answered the stay order of where you were and what you needed to do.

The reason I'm going to continue to stay the case pending the decision by the Supreme Court in the *JEM* case is that I believe that the decision in that case will provide relevant guidance to the ultimate outcome of this case.

I realize the issues are not precisely the same, but whenever we have difficult legal issues such as are presented by this case, and frankly every patent case has difficult legal issues, a decision by the Supreme Court on similar issues can provide relevant guidelines.

The legal issues between these two patent acts, the Plant Variety Protection Act and the Utility Patent statute, the normal patent statute are kind of complex. I don't think this is as frivolous an argument as Monsanto thinks it is. I don't think it's as frivolous an argument as frankly the Federal Circuit thought it was. I think there is some chance that the Supreme Court will change the law and even if they don't, whatever they say will give us guidance that will help us decide this case.

If I were to force the case to go forward now, I believe the result would be the same as it was in Judge Shaw's case or I believe that the defendant would not have a lot of arguments and we could do a lot of work on that and then if in fact the Supreme Court changed the law, we'd have to do all that work over again so I don't see any point in doing that.

This distinction between a plant or a plant variety and a gene or a DNA sequence and what exactly is covered by the patent is not as easy as everyone wants it to be and I note that both sides have argued this issue both ways. Sometimes Monsanto wants to say it's a plant that's covered, and sometimes they want to say it's DNA that's covered and the plaintiff-I mean the defendant does the same thing.

Sometimes the defendants have argued to me well this is a plant that's covered and sometimes they said it's the DNA and I think you both are arguing out of both sides of your mouth, frankly, and I think having a decision by the Supreme Court on this issue and in particular the issue of whether the seed saving provisions of the Plant Variety Protec-

tion Act provide any sort of safe harbor in this case is a fascinating question and the Supreme Court may not answer it, but I'd like to have their guidance so we're not going to have a trial on this case until we have heard from the Supreme Court.

Either party, this isn't in the order I'm entering but I'm telling you now if either party decides this is becoming a hardship or that I should reconsider this, I'm not saying come back next week and ask me to reconsider it, but if things change as you move forward, you are both free to move to ask me to reconsider this, to set the case for trial promptly if you think that's appropriate or to otherwise move forward.

I would not expect you to do that unless something-I don't want a motion to reconsider next week but you're free to ask me to change this if you think I should.

So I am today entering an amended case management order, and here is what it says: It says that the stay previously entered is lifted except as to *Daubert* motions, any *Markman* hearing, dispositive motions and trial.

The following schedule will apply in this case and I'm going to write something in here because I forgot about it. The plaintiff is granted leave to amend the complaint no later than May 15, 2001. We know that plaintiff, I think, wants to amend and if it's just a one line, I want to amend to add this, it's fine, or if it's a new amended complaint. I am not including a deadline for the defendants to amend the counterclaim. I think the defendant needs to consider whether he wants to amend the counterclaim

and I wouldn't take that step lightly, but the defendant may file a motion seeking leave to do so and then the plaintiff can oppose that and tell me why defendants had enough chances.

We will have a discovery period though. Since the trial and dispositive motions of the case are being stayed, there is no reason, and I don't believe anyone is prejudiced by allowing discovery to be completed and go forward.

I understand the plaintiff contends that the defendants did not comply with rule 26(A)(2) in filing their expert disclosure reports. I have not seen all of those reports but I have seen one of them and it certainly does not comply with rule 26(A)(2).

We don't need motion practice on this. I am simply going to tell the defendant to provide a revised expert disclosure and a new report, meeting all of the qualifications of rule 26(A)(2) no later than June 25. I will also allow the defendant to designate any additional experts that the defendant thinks should be designated and provide the reports, again in compliance with the Federal Rules of Civil Procedure, by that same date of June 25.

I understand the plaintiff objects to this. I'm doing this over the plaintiff's objection.

Those experts will be produced for deposition no later than July 25. I will then give the plaintiff an opportunity to disclose any rebuttal experts or if it means having the same experts you have previously disclosed be rebuttal experts, disclose their rebuttal expert reports by August 27 and make those experts available for depositions no later than September 27,

and the parties to complete all discovery in the case no later than October 15.

So if there are interrogatories and things that you need, get them out. You'll have time to get them back and answered and if in some respects I am giving the defendant a second chance at experts, and I'll make a comment about your experts. I don't know whether you want to use the same economic expert or not. That's up to you. There may be other experts you want to use.

I don't really have a comment on your second expert. Your first expert, Dr. Blaine, he would be a good expert witness if you could teach him how to be cross-examined. Judges aren't the only ones who get irritated when expert witnesses refuse to be cross-examined. He reminded me of a medical doctor or a criminal defendant's mother. No matter what you ask, I'm going to say what I want to say, and he's a pretty credible witness if he acts credible on cross-examination but if somebody acts like they refuse to follow the rules on cross-examination, the jury is going to get just as mad at them as I did yesterday and that's your job to train him to be a good expert witness. That's not anything about the substance of his testimony. It's just that he's got to answer the questions.

Then the case will be stayed as to *Daubert* motions, any *Markman* hearing that's required, dispositive motions and trial and I will set those dates after the Supreme Court's decision in the *Pioneer* case.

(COURT ADJOURNED AT 3:45 P.M.)

REPORTER'S CERTIFICATE

I, Patricia White, Official Court Reporter for the United States District Court for the Eastern District of Missouri do hereby certify that the above and foregoing is a true and correct transcript of the proceedings of Preliminary Injunction Hearing Volumes 2B and 3 had in this cause as same appears from my stenotype notes made personally during the progress of said proceedings.

PRELIMINARY INJUNCTION

In accordance with the Findings and Conclusions read into the record this day, the plaintiff's motion for preliminary injunction is granted. Accordingly, until further order of this court, defendant Homan McFarling and all persons acting on his behalf are:

1. Prohibited from planting any Roundup Ready® crop seed in defendant's possession, or under defendant's control, wherever situated;

2. Prohibited from moving, collecting, transferring, or obtaining in any other manner, the patented Roundup Ready® genes or crop seed;

3. Prohibited from cleaning, conditioning, or entering into any contracts or other agreements to clean or condition any Roundup Ready® seed covered under Monsanto's patents;

4. Defendant may sell any Roundup Ready® seed in his possession as a commodity and not for replanting or, at his option, may surrender all such seed to Monsanto for storage at Monsanto's expense pending final adjudication on the merits of this case.

It is further ordered that this injunction shall become effective immediately, that Monsanto shall post a bond in the amount of $200,000 COP no later than Friday, April 20, 2001, at 12:00 noon. If said bond is not posted by that date, the injunction will be dissolved and have no effect.

APPENDIX D

302 F.3d 1291

United States Court of Appeals,
Federal Circuit

MONSANTO COMPANY,
Plaintiff-Appellee,

v.

Homan MCFARLING,
Defendant-Appellant.

No. 01-1390

Decided: Aug. 23, 2002.
Rehearing En Banc Denied: Oct. 16, 2002.*

Before NEWMAN, CLEVENGER, and BRYSON, Circuit Judges.

Opinion for the court filed by Circuit Judge PAULINE NEWMAN. Dissenting opinion filed by Circuit Judge CLEVENGER.PAULINE NEWMAN, Circuit Judge.

Mr. Homan McFarling appeals the grant of a preliminary injunction by the United States District

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* Dyk, Circuit Judge, did not participate in the vote.

Court for the Eastern District of Missouri,[3] prohibiting Mr. McFarling, *pendente lite,* from using the plant genes and seed obtained from crops grown from Monsanto Company's patented soybean seed having the brand name Roundup Ready. We conclude that the district court acted within its discretion in granting the preliminary injunction.

BACKGROUND

Monsanto developed genetically modified plants that are resistant to glyphosate herbicides such as Roundup® brand herbicide. The herbicide can then be sprayed broadly in planted fields, killing the weeds but not harming the resistant crops. This results in substantial savings in labor costs for weed control. Monsanto's United States Patents Nos. 5,633,435 and 5,352,605 claim the glyphosate-tolerant plants, the genetically modified seeds for such plants, the specific modified genes, and the method of producing the genetically modified plants.

Monsanto authorizes various companies to manufacture the patented seeds, which are then sold to farmers. Monsanto requires that sellers of the patented seeds obtain from the farmers/purchasers a "Technology Agreement," and the farmers pay a license fee to Monsanto of $6.50 per 50-pound bag of soybean seed. Mr. McFarling, a farmer in Mississippi, purchased Roundup Ready® soybean seed in

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[3] *Monsanto Co. v. Homan McFarling,* No. 4:00CV84 CDP (E.D.Mo. Apr. 13, 2000) (order denying motion to dismiss for lack of personal jurisdiction); (Mar. 21, 2001) (order granting motion to stay); (April 18, 2001) (opinion and order granting preliminary injunction).

1997 and again in 1998; he signed the Technology Agreement and paid the license fee for each purchase. The signature line is immediately below the following statement: "I acknowledge that I have read and understand the terms and conditions of this Agreement and that I agree to them."

The agreements include the requirement that the seeds are to be used "for planting a commercial crop only in a single season" and direct the licensee not to "save any crop produced from this seed for replanting, or supply saved seeds to anyone for replanting." Mr. McFarling does not dispute that he violated the terms of the Technology Agreement. He saved 1,500 bushels of the patented soybeans from his harvest during one season, and instead of selling these soybeans as crop he planted them as seed in the next season. He repeated this activity in the following growing season, and stated that unless enjoined he intended to plant soybeans saved from the 2000 harvest in 2001. McFarling paid no license fee for this saved soybean seed, which retained the genetic modifications of the Roundup Ready® seed.

Monsanto filed suit in the Eastern District of Missouri, charging patent infringement and breach of contract, and seeking a preliminary injunction. Mr. McFarling challenged the Missouri court's jurisdiction, and raised various counterclaims and defenses including charges of antitrust violation, patent misuse, and violation of the Plant Variety Protection Act, 7 U.S.C. § 2321 *et seq.* (PVPA). The district court interpreted the argument concerning violation of the PVPA as a request for declaration that the patents are invalid or unenforceable, granted

McFarling's motion to stay the proceeding pending review by the Supreme Court of this court's ruling that plant seeds and seed-grown plants are within the subject matter of § 101 of the Patent Act. The Court affirmed that ruling in *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 122 S.Ct. 593, 151 L.Ed.2d 508, 60 USPQ2d 1865 (2001).

The district court denied Mr. McFarling's motion to dismiss for lack of personal jurisdiction and granted Monsanto's motion for a preliminary injunction. This appeal followed.

DISCUSSION

The Forum Selection Clause

Mr. McFarling argues that the district court did not acquire personal jurisdiction over him based on the forum selection clause in the 1998 Technology Agreement. This clause was printed in capital letters, indeed the only provision of the Technology Agreement that is in all capital letters. All of the provisions of the Technology Agreement are on the same page, on the reverse side of the signature page:

> THIS AGREEMENT IS GOVERNED BY THE LAWS OF THE STATE OF MISSOURI AND THE UNITED STATES (OTHER THAN THE CHOICE OF LAW RULES). THE PARTIES CONSENT TO THE EXCLUSIVE JURISDICTION OF THE U.S. DISTRICT COURT FOR THE EASTERN DISTRICT OF MISSOURI, EASTERN DIVISION, AND THE CIRCUIT COURT OF THE COUNTY OF ST. LOUIS, STATE OF MISSOURI, FOR ALL

DISPUTES ARISING UNDER THIS AGREEMENT.

McFarling states that he never turned over the agreement,[4] and that he did not consent to jurisdiction in Missouri based on a forum selection clause that he did not intentionally sign. McFarling argues that he has no contacts with Missouri, and that the Missouri district court's exercise of personal jurisdiction violates his due process rights under the Fifth Amendment.

Whether a district court has personal jurisdiction of a defendant in a patent infringement action is subject to plenary review. *Inamed Corp. v. Kuzmak*, 249 F.3d 1356, 1359, 58 USPQ2d 1774, 1776 (Fed.Cir.2001). The issue here is not the reach of a state's long-arm statute, but the effect of a forum selection clause whereby jurisdiction is obtained by contractual consent or waiver. Such a clause is enforceable unless the party challenging it clearly demonstrates that it is invalid or that enforcement would be unreasonable and unjust. *See* ***1295** *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 n. 14, 105 S.Ct. 2174, 85 L.Ed.2d 528 (1985) (noting that the enforcement of freely negotiated forum selection

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[4] The parties focus on the forum selection clause in the 1998 agreement. Mr. McFarling states that the reverse side of the 1997 agreement was blank. Monsanto states that the 1997 agreement was a standard form and, like the 1998 agreement, included the forum selection clause as well as all other provisions of the Technology Agreement on the reverse side of the document, whose front side contains only the identity of buyer and seller and a statement of the crop and acreage to be planted.

provisions "does not offend due process" when the provisions are neither unreasonable nor unjust); *see also* *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 15, 92 S.Ct. 1907, 32 L.Ed.2d 513 (1972) (holding that a forum selection clause requiring suit in a foreign court should be enforced unless the plaintiff attempting to avoid it "could clearly show that enforcement would be unreasonable and unjust, or that the clause was invalid for such reasons as fraud or overreaching").

The district court held that the forum selection clause of the Technology Agreement is valid and enforceable. Mr. McFarling, challenging this holding on the ground of fairness, refers to *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 111 S.Ct. 1522, 113 L.Ed.2d 622 (1991), in which the Court held enforceable a forum selection clause printed on a cruise ticket, but stated that "forum-selection clauses contained in form passage contracts are subject to judicial scrutiny for fundamental fairness." *Id.* at 595, 111 S.Ct. 1522. McFarling states that unlike a cruise ship that carries passengers to and from many places, he purchased, planted, and harvested the seeds, and executed the Technology Agreements, all in Mississippi, and thus that Mississippi is clearly the fairest forum. He states that the plaintiffs in *Carnival* conceded that they had notice of the forum selection provision, but that he did not have notice because he did not read the back of the agreement. McFarling cites *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102, 112, 107 S.Ct. 1026, 94 L.Ed.2d 92 (1987), for the proposition that minimum contact jurisdictional standards are not met unless the de-

fendant performed an act "purposefully directed toward the forum State," and argues that his "negligent" signing of the agreement was not purposeful. The district court correctly viewed the issue as one of validity of the contract provision, not an issue of minimum contacts.

Forum selection clauses are valid and accepted unless they are clearly unreasonable or fraudulent. Monsanto argues that the clause is reasonable because of Monsanto's legitimate interest in litigating disputes arising from these Technology Agreements in the venue of its principal place of business, one of the justifications asserted by the cruise line in *Carnival*. Monsanto also states that this common venue enhances judicial efficiency, produces greater uniformity of result, and decreases litigation costs.

The district court found that Mr. McFarling did not dispute that his ignorance of the clause was solely the result of his voluntary failure to read what he signed. A party who signs an agreement is bound by its terms, unless he was fraudulently induced not to read it or was fraudulently misled as to its content or significance. *See* *Bradley v. Chiron Corp.*, 136 F.3d 1317, 1322, 45 USPQ2d 1819, 1822 (Fed.Cir.1998) (applying California law that a person is bound to a written agreement that he signs but neglects to read). Both Missouri and Mississippi contract law reflect this universal rule, making it unnecessary to consider choice of law issues. *See, e.g.*, *Binkley v. Palmer*, 10 S.W.3d 166, 171 (Mo.Ct.App.1999) ("It has long been settled in Missouri that absent a showing of fraud, a party who is

capable of reading and understanding a contract is charged with the knowledge of that which he or she signs."); *Oglesbee v. National Security Fire & Casualty Co.*, 788 F.Supp. 909, 913 (S.D.Miss.1992) ("Under Mississippi law, unless a party was induced not ***1296** to read the contract or have it read to him by fraudulent representation made by another party, he will be required to abide by its terms."). McFarling's argument that his voluntary failure to read the forum selection clause entitles him to exemption from its effect is unsupported by any law. Due process as to these issues is satisfied when a party consents by contract to personal jurisdiction in a selected forum. Moreover, McFarling has failed to demonstrate that the choice of Missouri as the forum is unreasonable. The district court correctly exercised personal jurisdiction over McFarling.[5]

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[5] We take note of the theory of our colleague in dissent, who argues that this is a contract of adhesion and therefore unenforceable. The dissent states that no court in the past thirty years "has enforced a forum selection clause against a defendant who has acceded to an adhesion contract." If the term "contract of adhesion" is understood to mean a contract that a court decides is unenforceable because it is unconscionable, then obviously no such contracts will be enforced. If, on the other hand, the term refers to form contracts that are not subject to negotiation, forum selection clauses in such contracts have often been enforced. *See Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 111 S.Ct. 1522, 113 L.Ed.2d 622 (1991). For example, in *Northwestern National Insurance Co. v. Donovan*, 916 F.2d 372 (7th Cir.1990) the court enforced a forum selection clause in what it characterized as an adhesion contract between individual investors and a

The Injunction Pendente Lite

The district court granted Monsanto's motion for a preliminary injunction, on Mr. McFarling's statement that he would otherwise continue to save soybeans from his crop and plant them as seed, contrary to the agreements he signed. We review the

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large insurance company. The court referred to "the widespread judicial suspicion of the form contract-the dreaded 'contract of adhesion,' " and observed that they are generally upheld (citing cases), remarking that "Ours is not a bazaar economy in which the terms of every transaction, or even of most transactions, are individually dickered; even when they are, standard clauses are commonly incorporated in the final contract, without separate negotiation of each of them." *Id.* at 377. The court rejected the contention that failure to read a forum selection clause, in the absence of fraud, can negate its enforcement. *Id.* at 378 ("If they make a practice of signing contracts without reading them, they must bear the consequences.")

Our colleague in dissent also proposes that since Mr. McFarling says he didn't read the forum selection clause he shouldn't be bound by it. This theory is somewhat ingenuous in this case, for all of the provisions of the Technology Agreement are on the obverse, not simply the forum selection clause (which is the only provision printed in all capital letters). Mr. McFarling does not deny that he knew of the provision that prohibited saving crop as seed, for example. Nor does Mr. McFarling, a businessman whose business is farming, state that he could not understand his acknowledgment that "I have read and understand the terms and conditions of this Agreement and that I agree to them," when all the terms and conditions are together on the obverse page.

grant of a preliminary injunction on the standard of abuse of discretion. *See, e.g.,* H.H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 387, 2 USPQ2d 1926, 1927 (Fed.Cir.1987). A district court abuses its discretion if it "made a clear error of judgment in weighing relevant factors or exercised its discretion based upon an error of law or clearly erroneous factual findings." Novo Nordisk of North America, Inc. v. Genentech, Inc., 77 F.3d 1364, 1367, 37 USPQ2d 1773, 1775 (Fed.Cir.1996).

The general rule for grant of a preliminary injunction is that a party must establish (1) a reasonable likelihood of success on the merits; (2) irreparable harm, ***1297** or harm not readily remediable monetarily; (3) a balance of hardships tipping in favor of the complainant; and (4) that the public interest is not disserved by the injunction. *See, e.g.,* We Care, Inc. v. Ultra-Mark Int'l Corp., 930 F.2d 1567, 1570, 18 USPQ2d 1562, 1564 (Fed.Cir.1991); Hybritech Inc. v. Abbott Labs., 849 F.2d 1446, 1451, 7 USPQ2d 1191, 1195-96 (Fed.Cir.1988). The court must balance these four factors, as their relative weights warrant, in service to the interest of justice.

On appeal, Mr. McFarling challenges the district court's analysis of only one of the four factors: the likelihood of Monsanto's success on the merits. McFarling does not now challenge the validity of Monsanto's patents; instead, he argues that the Technology Agreements constitute an illegal restraint of trade, in violation of the Sherman Act and in misuse of the patents, and thus that the patents are unenforceable. McFarling also argues that the first sale doctrine prohibits the contractual restraint

on producing his own seed.

1.

First, Mr. McFarling argues that the Technology Agreements create an illegal tying arrangement by requiring farmers to buy new Roundup Ready® seed each year instead of allowing them to produce their own Roundup Ready® seed from the prior year's crop. McFarling cites *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 104 S.Ct. 1551, 80 L.Ed.2d 2 (1984), for the proposition that a tying arrangement violates the Sherman Act when the seller exploits "its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Id.* at 12, 104 S.Ct. 1551. According to McFarling, the tied product is a fresh supply of Monsanto's Roundup Ready® seed in future years, while the tying product is the original purchase of Roundup Ready® seed. McFarling states that he does not want to buy future Roundup Ready® seed, because he can produce his own genetically modified Roundup Ready® seed. McFarling also states that even if these restrictions do not constitute antitrust violations, the requirement that farmers buy new seed each year impermissibly broadens the patent grant, with anti-competitive effect.

Mr. McFarling further argues that the Technology Agreements constitute illegal agreements among competitors, referring to the agreements between Monsanto and its local distributors whereby the local sellers must require farmers to enter into

the Technology Agreements as a condition of buying the Roundup Ready® seed. McFarling cites *Citizen Publishing Co. v. United States*, 394 U.S. 131, 89 S.Ct. 927, 22 L.Ed.2d 148 (1969), for the proposition that agreements among competitors to fix the material terms of a sale are illegal. As a result of such alleged collusion, McFarling states that farmers in the United States pay higher prices for Roundup Ready® seed than do farmers in Argentina. Monsanto states that as the patent holder it decides unilaterally the terms on which its patents are licensed and its product sold under the Technology Agreements. Monsanto explains that the seed companies that are licensed by Monsanto to produce and sell the modified soybean seed have no control over the terms of the Technology Agreements that Monsanto requires of farmers who choose to purchase the Monsanto seed.

The district court found that Mr. McFarling was not likely to succeed on his ***1298** Sherman Act or patent misuse claims, that he had not presented any evidence raising a substantial question as to whether the Technology Agreements constitute a form of unreasonable or illegal restraint of trade. The district court's finding is not challenged, that there was no obligation upon Mr. McFarling to buy future seed as a condition of buying seed in the present. The court found that there were no impediments preventing Mr. McFarling from switching to other soybean seeds, the court recognizing that there are over two hundred commercial sources of soybean seed, including several herbicide-resistant soybeans.

A purchaser's desire to buy a superior product does not require benevolent behavior by the purveyor of the superior product. Nor does an inventor of new technology violate the antitrust laws merely because its patented product is favored by consumers. *See* Abbott Labs. v. Brennan, 952 F.2d 1346, 1354, 21 USPQ2d 1192, 1199 (Fed.Cir.1991) ("The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist.")

In accordance with the Technology Agreement, the purchaser agrees to use the purchased seed for the purpose of growing crops and not for the purpose of producing new seed. In Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 24 USPQ2d 1173 (Fed.Cir.1992) this court held that use of a patented product "in violation of a valid restriction may be remedied under the patent law, provided that no other law prevents enforcement of the patent." Id. at 701, 24 USPQ2d at 1174. A restriction on use to make additional patented product, to constitute an antitrust violation, must meet the requirements of such violation and be outside the scope of the patent grant. *See* General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124, 127, 59 S.Ct. 116, 83 L.Ed. 81, 39 USPQ 329, 330 (1938). The district court correctly held that Mr. McFarling has not shown a reasonable likelihood of success on antitrust/misuse grounds; the record does not support Mr. McFarling's theory that he is required to buy future patented seeds from Monsanto in order to buy present patented seeds.

2.

As a second ground for challenging the agreements, Mr. McFarling states that the contractual prohibition against using the patented soybeans to produce additional seeds for planting by the farmer violates the doctrines of patent exhaustion and first sale, and that the parties could not enter into an enforceable contract that has this effect. In support, McFarling cites the statement in *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 86 L.Ed. 1408, 53 USPQ 404, 407 (1942), that when a patented product has been sold the purchaser acquires "the right to use and sell it, and ... the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." It follows, McFarling argues, that once Monsanto sold the patented seeds to McFarling, its patent rights on the seeds and their products were exhausted and could not be restricted by agreement. Monsanto responds that it is within the scope of Monsanto's patent rights to prevent others from making, for the purpose of planting, a new batch of patented seeds from the purchased seeds.

The restrictions in the Technology Agreement are within the scope of the ***1299** patent grant, for the patents cover the seeds as well as the plants. The "first sale" doctrine of exhaustion of the patent right is not implicated, as the new seeds grown from the original batch had never been sold. The price paid by the purchaser "reflects only the value of the 'use' rights conferred by the patentee." *B. Braun Medical Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426, 43

USPQ2d 1896, 1901 (Fed.Cir.1997). The original sale of the seeds did not confer a license to construct new seeds, and since the new seeds were not sold by the patentee they entailed no principle of patent exhaustion.

3.

McFarling argues that the contractual prohibition against using the patented seed to produce new seed for planting, when he produced only enough new seed for his own use the following season, violates section 2543 of the PVPA, which permits farmers to save seeds of plants registered under the PVPA.

The PVPA and the Patent Act are complementary forms of statutory protection of plant "breeders' rights." Utility patents under Title 35 provide rights and privileges that differ from those provided by Plant Variety Protection certificates. In *J.E.M. AG Supply*, 534 U.S. at ----, 122 S.Ct. at 604-05, 60 USPQ2d at 1873-74, the Court held that utility patents are available to plants and seeds that meet the requirements of patentability, independent of and in addition to rights under the PVPA. The Court observed that one of the differences between the two statutes is that "there are no exemptions for research or saving seed under a utility patent." *Id.* at ----, 122 S.Ct. at 604, 60 USPQ2d at 1873. It is thus established that the right to save seed of plants registered under the PVPA does not impart the right to save seed of plants patented under the Patent Act.

4.

Mr. McFarling complains that the price charged for Roundup Ready® seeds is higher than for other soybean seeds, and that it is cheaper for him to produce his own Roundup Ready® seeds. He also states that Monsanto sells Roundup Ready® seeds at a lower price in Argentina.

We need not repeat that in a market economy a purveyor may charge the price that the product can sustain; there is no requirement that a patentee must lower his price to that of the less desired products he replaces. *See, e.g.*, *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 93, 22 S.Ct. 747, 46 L.Ed. 1058 (1902) ("The owner of a patented article can, of course, charge such price as he may choose...."); *Carter-Wallace, Inc. v. United States*, 196 Ct.Cl. 35, 449 F.2d 1374, 1383, 171 USPQ 359, 365 (1971) ("[A]s a general rule and absent any overriding unlawful conduct, patentees can charge for their patented products and licenses whatever the market will bear.") This aspect does not add weight to the antitrust arguments pressed by Mr. McFarling.

CONCLUSION

Mr. McFarling conceded that he violated the terms of the Technology Agreements. The district court found that Monsanto had a reasonable likelihood of success on the issues of infringement and breach of contract, and that it was unlikely that an antitrust violation would be found. We do ***1300** not discern error in these findings, and the other factors relevant to grant of an injunction *pendente lite* are not contested. We conclude that the district court did not abuse its discretion in granting the injunc-

tion.

AFFIRMED.

CLEVENGER, Circuit Judge, dissenting.

I respectfully dissent. It is an elementary principle of constitutional law that no court may render judgment upon one over whom the court lacks personal jurisdiction. The requirement that a court must have personal jurisdiction to render a valid judgment arises, in the case of a federal question, from the Due Process Clause of the Fifth Amendment and represents a restriction on judicial power as a matter of personal liberty. *Ins. Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 702, 102 S.Ct. 2099, 72 L.Ed.2d 492 (1982). Like other individual liberties, the right to due process may be waived, and a defendant by contract may consent to the jurisdiction of a court which otherwise would have no power over him. *Nat'l Equip. Rental, Ltd. v. Szukhent*, 375 U.S. 311, 315-16, 84 S.Ct. 411, 11 L.Ed.2d 354 (1964).

However, the conclusion that a defendant has surrendered his right to due process of law is not one that a court should reach casually. "In the civil area, the Court has said that '[w]e do not presume acquiescence in the loss of fundamental rights.' Indeed, in the civil no less than the criminal area, 'courts indulge every reasonable presumption against waiver.' " *Fuentes v. Shevin*, 407 U.S. 67, 94 n. 31, 92 S.Ct. 1983, 32 L.Ed.2d 556 (1972) (citation omitted) (quoting *Ohio Bell Tel. Co. v. Pub. Util. Comm'n*, 301 U.S. 292, 307, 57 S.Ct. 724, 81 L.Ed. 1093 (1937) and *Aetna Ins. Co. v. Kennedy*, 301 U.S. 389, 393, 57

S.Ct. 809, 81 L.Ed. 1177 (1937)). Let us be clear what we hold by enforcing Monsanto's forum selection clause against McFarling: we hold that an accused infringer may surrender his right to due process in advance by signing a contract of adhesion-regardless of whether that accused infringer knew that by so doing he abandoned his constitutional rights.

It cannot seriously be disputed that by signing the Technology Agreement McFarling became attached to a contract of adhesion. Although the definition of an adhesive contract varies, Monsanto's own state of Missouri has defined an adhesive contract as "one in which the parties have unequal standing in terms of bargaining power (usually a large corporation versus an individual) and often involve take-it-or-leave-it provisions in printed form contracts." *High Life Sales Co. v. Brown-Forman Corp.*, 823 S.W.2d 493, 497 (Mo.1992) (en banc). The Technology Agreement certainly meets these criteria: the terms printed on the reverse of the Technology Agreement are not subject to negotiation and Monsanto's billions of dollars in assets far exceed McFarling's alleged net worth of $75,000.

But the relative bargaining power of Monsanto and McFarling is not the only indicium of a contract of adhesion here. Courts are more likely to label a contract adhesive when its terms are lopsided in favor of the drafter and when the purchaser has no other practical source to turn for necessary goods, for these factors tend to erode the premise that the rights given up by the lesser party were surrendered freely and fairly. No one perusing the Technology

Agreement can doubt that its *1301 terms are decidedly one-sided in Monsanto's favor. A farmer signing the 1998 Technology Agreement did not merely agree to submit to the jurisdiction of the Eastern District of Missouri and to refrain from saving and replanting seed. Sale of Roundup Ready seed to the farmer was made on the condition that the farmer shall not use on that crop the glyphosate herbicides of any of Monsanto's competitors. The farmer further agreed that Monsanto's damages for saving and replanting seed shall include, in addition to Monsanto's other remedies, liquidated damages based on 120 times the applicable Technology Fee. The farmer further agreed to bear the costs of Monsanto's suit against him by paying all of Monsanto's legal fees and costs. By the terms of the Technology Agreement, all that the farmer received in exchange for these promises was the "opportunity" to purchase and plant Roundup Ready seed and the "opportunity" to participate in Monsanto's crop insurance programs. Should the farmer violate the terms of the Technology Agreement, these rights (which are not transferable without Monsanto's consent) terminate immediately and permanently, although the farmer's obligations to Monsanto do not. I do not mean to suggest that the substantive terms of the Technology Agreement are unenforceable. A patentee has every right to license its technology on only the most favorable terms possible and Monsanto is no exception. But the one-sidedness of the Technology Agreement's substantive terms provides strong evidence that the forum selection clause was imposed, rather than (even in the abstract sense) bargained for.

Another hallmark of the adhesion contract is that the purchaser cannot reasonably obtain the necessary goods or services on alternative terms from any other source. Monsanto widely licenses its patents on glyphosate resistance technology, and over 200 seed companies offer Roundup Ready soybean seed. But each and every one of those licenses requires that the ultimate consumer (the farmer) sign Monsanto's own Technology Agreement. While Monsanto's monopoly on glyphosate resistance technology may be an entirely lawful one, Monsanto's control of the market means that farmers have no place else to turn for glyphosate-resistant seed. Farmers may certainly obtain ordinary soybean seed without acceding to the terms of the Technology Agreement. However, in only a few short years since their introduction, Roundup Ready seeds now account for at least 66 percent of soybean acreage planted in the United States, testifying that despite the substantial added cost of the Technology Fee most farmers find glyphosate-resistant soybeans far more competitive than ordinary seed. Testimony adduced at the preliminary injunction hearing indicated that glyphosate-resistant soybeans are especially important to farmers like McFarling, because northeastern Mississippi harbors particular weeds that are difficult to control without glyphosate-based herbicides. Taken together, these facts indicate that farmers like McFarling have little choice but to sign the Technology Agreement if they wish to remain competitive in the soybean market.

I reiterate that the commercial terms of adhesion contracts are generally enforceable absent a

showing of substantive unconscionability. But whether such a contract should be effective to extinguish those rights guaranteed by the Due Process Clause of the Constitution is another matter altogether. As the highest court of Monsanto's own state of Missouri has noted: "Many courts have refused to enforce ***1302** a forum selection clause on the grounds of unfairness if the contract was entered into under circumstances that caused it to be adhesive." *High Life Sales*, 823 S.W.2d at 497.[6] This reluctance is especially appropriate when, as here, the drafter of an adhesion contract wields the forum selection clause "offensively," seeking to deprive a defendant of the protection afforded by the courts to those who are not otherwise subject to their jurisdiction.

To be sure, the Supreme Court has yet to hold that adhesion contracts are ineffective to surrender rights granted by the Due Process Clause. But the Court's assessment of such surrenders has hardly been favorable. In *Fuentes v. Shevin*, 407 U.S. 67, 92 S.Ct. 1983, 32 L.Ed.2d 556 (1972), the Court considered an alleged waiver by an adhesion contract of the right to a prior hearing, another aspect of the personal liberty conferred by the Due Process Clause. The Court at length contrasted the alleged waiver of due process rights by an adhesion contract

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[6] The *High Life* court found no unfairness in the forum selection clause under consideration because the clause was part of a negotiated agreement, and because the clause was reciprocal, providing for litigation in the defendant's home forum instead of any one particular venue. *High Life Sales*, 823 S.W.2d at 497.

with the freely negotiated waiver in an earlier case, *Overmyer v. Frick:*

In *D.H. Overmyer Co. v. Frick Co.*, the Court recently outlined the considerations relevant to determination of a contractual waiver of due process rights. Applying the standards governing waiver of constitutional rights in a criminal proceeding-although not holding that such standards must necessarily apply-the Court held that, on the particular facts of that case, the contractual waiver of due process rights was "voluntarily, intelligently, and knowingly" made. The contract in *Overmyer* was negotiated between two corporations; the waiver provision was specifically bargained for and drafted by their lawyers in the process of these negotiations. As the Court noted, it was "not a case of unequal bargaining power or overreaching. The Overmyer-Frick agreement, from the start, was not a contract of adhesion." Both parties were "aware of the significance" of the waiver provision.

The facts of the present case are a far cry from those of *Overmyer*. There was no bargaining over contractual terms between the parties who, in any event, were far from equal in bargaining power. The purported waiver provision was a printed part of a form sales contract and a necessary condition of the sale. The appellees made no showing whatever that the appellants were actually aware or made aware of the significance of the fine print now relied upon as a waiver of constitutional rights.

The Court in *Overmyer* observed that "where the contract is one of adhesion, where there is great

disparity in bargaining power, and where the debtor receives nothing for the (waiver) provision, other legal consequences may ensue."

407 U.S. at 94-95, 92 S.Ct. 1983 (citations omitted) (quoting *D.H. Overmyer Co., Inc. v. Frick Co.*, 405 U.S. 174, 186-88, 92 S.Ct. 775, 31 L.Ed.2d 124 (1972)). The Court's words need no complex exegesis, and no reader could fail to recognize Monsanto's Technology Agreement in the Court's description of Mrs. Fuentes's onerous contract. True, the *Fuentes* Court found no need to determine whether due process ***1303** rights could be voluntarily and intelligently waived by an adhesion contract, because the contractual language in question was not specific enough to waive the rights at issue. *Id.* at 95-96, 92 S.Ct. 1983. Monsanto's Technology Agreement states clearly that the licensee consents to jurisdiction in the Eastern District of Missouri. Nonetheless, the Court's analysis in *Fuentes*, in every respect pertinent to the facts of this case, should make clear that McFarling's alleged waiver of the defense of personal jurisdiction falls far short of that required for a contractual waiver of due process rights. I cannot accept that McFarling's signature on the face of the Technology Agreement was a voluntary, intelligent, and knowing acceptance of the constitutional surrender lurking on its back.[7]

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[7] Indeed, even an attorney reading the Technology Agreement might not understand that it purports to subject one to liability for patent infringement in Missouri, for the contract's forum selection clause by its terms applies only "for all disputes arising under this agreement."

The majority bases its conclusion on well-established contract principles maintaining that failure to read a contract will not excuse one from the contract's obligations. I agree, but "these principles have been modified when contract terms appear on the back of a contract." *Advance Elevator Co., Inc. v. Four State Supply Co.*, 572 N.W.2d 186, 188 (Iowa Ct.App.1997). Where the front of a contract makes no reference to terms on its reverse, and the drafter of the contract does not bring the language on the reverse side of the contract to the attention of the other party, terms on the reverse are without legal effect. *Id.* at 189.

It is instructive to compare the Technology Agreement to the cruise ship ticket of *Carnival Cruise Lines v. Shute*, in which the Supreme Court found enforceable a defensive forum selection clause printed on the back of the ticket. The face of Mrs. Shute's ticket prominently advertised the existence of additional terms in no less than three separate places:

SUBJECT TO CONDITIONS OF CONTRACT ON LAST PAGES

and:

IMPORTANT! PLEASE READ CONTRACT

Case law of this court supports the proposition that a patent infringement suit "arises under" a license agreement, *see Texas Instruments, Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1331 (Fed.Cir.2000), but we may presume that few feed stores stock the *Federal Reporter* on their shelves.

ON LAST PAGES 1, 2, 3

and:

The provisions on the reverse hereof are incorporated as though fully rewritten.

Carnival Cruise Lines, Inc. v. Shute, 499 U.S. 585, 605, 111 S.Ct. 1522, 113 L.Ed.2d 622 (1991).

In contrast, the face of Monsanto's 1998 Technology Agreement has no reference at all to its reverse, and the signature block merely states that the customer has read, understood, and accedes to "the terms and conditions of this Agreement," without any indication at all that some terms might be found on the Agreement's other side. Furthermore, Mrs. Shute conceded that she had notice of the forum selection clause, *see* *Carnival Cruise Lines*, 499 U.S. at 590, 111 S.Ct. 1522, and thereby satisfied *Fuentes's* criterion that a surrender of due process rights should be made knowingly. McFarling, on the other hand, specifically testified that he was unaware of the existence of the forum selection clause when he signed the Technology ***1304** Agreement. Under penalty of perjury, McFarling swore as follows: "I did not know what was contained on the reverse side of the form was an agreement submitting myself to jurisdiction in Missouri. At the time I purchased the soybean seeds I had no idea that Missouri had any involvement in this matter whatsoever." Other courts confronted with similar circumstances have not hesitated to find that the forum selection clause was not reasonably communicated to the signer and was thereby rendered void. *See, e.g.*, *O'Brien v. Okemo Mountain, Inc.*, 17 F.Supp.2d 98, 103

(D.Conn.1998) (refusing to enforce forum selection clause on reverse of ski lift ticket).

Monsanto's argument for the enforceability of its forum selection clause relies heavily on the Supreme Court's opinion in *Carnival Cruise Lines*. But *Carnival Cruise Lines* provides neither precedent nor rationale for the substantial expansion of the law imposed by the court in this case at Monsanto's request. First and perhaps foremost, *Carnival Cruise Lines*, like *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 92 S.Ct. 1907, 32 L.Ed.2d 513 (1972), approved of a defensive forum selection clause enforced against a plaintiff and did not address the surrender of constitutional rights. Although the Due Process Clause does protect a plaintiff's property interest in his or her claim, *see Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 428-31, 102 S.Ct. 1148, 71 L.Ed.2d 265 (1982); *Mullane v. Cent. Hanover Bank & Trust Co.*, 339 U.S. 306, 313-14, 70 S.Ct. 652, 94 L.Ed. 865 (1950), a plaintiff forfeits no interest in life, liberty, or property to the state by agreeing that a future claim may be brought only in a forum of the defendant's choice. In contrast, the interests protected by the Due Process Clause are at their zenith when the machinery of the legal system is invoked against a defendant who has no traffic with the forum in question:

An out-of-state defendant summoned by a plaintiff is faced with the full powers of the forum State to render judgment *against* it. The defendant must generally hire counsel and travel to the forum to defend itself from the plaintiff's claim, or suffer a default judgment. The defendant may be forced to

participate in extended and often costly discovery, and will be forced to respond in damages or to comply with some other form of remedy imposed by the court should it lose the suit. The defendant may also face liability for court costs and attorney's fees. These burdens are substantial, and the minimum contacts requirement of the Due Process Clause prevents the forum State from unfairly imposing them upon the defendant.

Phillips Petroleum Co. v. Shutts, 472 U.S. 797, 808, 105 S.Ct. 2965, 86 L.Ed.2d 628 (1985).[8] To be sure, litigation is frequently costly and inconvenient for plaintiffs as well. But a plaintiff takes on its burdens only by choice. A plaintiff like Monsanto may be faced with the unpleasant alternatives of prosecuting suspected infringers like McFarling or forfeiting its valuable proprietary position, but heretofore the burden of initiating infringement litigation where the infringer resides has been accepted as another cost attendant to enjoyment of the patent right. McFarling here has admitted the acts that would constitute ***1305** infringement; in cases where the factual predicate for infringement is not so clear, it may seem less wise to grant patentees the unrestricted power to drag accused infringers off to distant courts.

Nor did *Carnival Cruise Lines* approve of enforcing a forum selection clause found in a contract of adhesion. Although *Carnival Cruise Lines* re-

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[8] *Phillips Petroleum* compared the burdens placed by a State upon an absent class-action plaintiff and upon an absent defendant.

ferred to the disparity of bargaining power between the cruise line and the passenger, and recognized that under such circumstances the forum selection clause was not subject to negotiation, the Court did not describe the contract for passage on a cruise line as a contract of adhesion. Indeed, by some definitions, a contract for passage on a cruise line could never be a contract of adhesion, because passage on a cruise line is a discretionary purchase and is available from many competing sellers. Some courts would exclude contracts for such goods and services from the definition of adhesion contract altogether. *See, e.g.,* *Jones v. Dressel*, 623 P.2d 370, 374 (Colo.1981). Thus, the Court in *Carnival Cruise Lines* had no occasion to pass upon the validity of a forum selection clause-even a defensive one-imposed by a contract of adhesion.

Monsanto in this case, and patentees in general, can lay claim to few or none of the policy rationales advanced by the Supreme Court to justify enforcement of the forum selection clause in *Carnival Cruise Lines.* There, the Supreme Court identified three such concerns. First, cruise lines, which by definition carry passengers resident in various fora between several ports, and possibly through international waters, have a special interest in limiting the fora in which they are subject to suit. *Carnival Cruise Lines*, 499 U.S. at 593, 111 S.Ct. 1522. But cruise lines rarely sue their passengers. While Carnival Cruise Lines had a strong interest in not being carried off to the myriad home fora of its passengers as the defendant in tort suits, Monsanto may pick and choose where and when it brings a

patent infringement suit. Moreover, unlike contract or tort, there is one patent law in the land, and a patentee's substantive rights and burdens depend not at all on where its infringement suit is brought. *Cf. The Bremen*, 407 U.S. at 13 n. 15, 92 S.Ct. 1907 (explaining that forum selection clauses may be reasonable because they can provide certainty in the choice of substantive law).

The Supreme Court's second rationale in *Carnival Cruise Lines* was that forum selection clauses have the salutary effect of dispelling confusion about where suits must be brought. 499 U.S. at 593-94, 111 S.Ct. 1522. Defensive forum selection clauses usually achieve this certainty by limiting suit to the defendant's home forum, thereby avoiding a minimum contacts analysis. But offensive forum selection clauses provide little additional certainty because they interfere with basic notions that infringers are sued in fora in which they reside or to which they have directed infringing conduct. Absent the forum selection clause, there would be no question at all that this suit ought to be brought in Mississippi, where the defendant may be found and the allegedly infringing acts transpired. And unlike cruise ship passengers, patent infringers-particularly farmers-tend to stay put, and determining the situs of patent infringement is generally a simple matter.

Carnival Cruise Lines's final rationale for enforcing forum selection clauses in form contracts, and the one relied upon most heavily by Monsanto, is that purchasers benefit from such clauses in the form ***1306** of lower prices, because a seller will pass on to purchasers the savings it realizes by limiting

the fora in which it may be sued. *Id.* at 594, 111 S.Ct. 1522. However much weight this argument based on elementary economics may carry in other contexts, it carries little or none in patent infringement suits. Elementary economics also teaches that a patentee, like any monopolist, sets prices based on consumer demand and not on the cost of production. There is, of course, nothing objectionable about a patentee pricing his product so, but a rational patentee will not pass on cost savings to consumers unless he is receiving no rent, *i.e.*, unless the patent is worthless. Minimizing litigation costs may raise Monsanto's profits, but it is unlikely to benefit farmers.

In sum, the Supreme Court in *Carnival Cruise Lines* did not establish a *per se* rule that forum selection clauses are enforceable. Although the Court reaffirmed *The Bremen's* presumption in favor of enforcement, it also maintained *The Bremen's* requirement that enforcement of the clause be reasonable, and emphasized that "forum-selection clauses contained in form passage contracts are subject to judicial scrutiny for fundamental fairness." *Carnival Cruise Lines*, 499 U.S. at 595, 111 S.Ct. 1522. But here, the district court seems to have abstained from any scrutiny of the forum selection clause at all, concluding that the clause was valid and enforceable simply because McFarling signed it. This is not the sort of inquiry contemplated by *Carnival Cruise Lines*. The circumstances of this case, in nearly every instance opposite from those that led the Supreme Court to find enforcement of the forum selection clause fair and reasonable in *Carnival Cruise*

Lines, ought to compel a more meaningful inquiry if the guarantees of the Fifth Amendment are to be given their proper due.

I can find no reported case in the thirty years since *Fuentes* and *The Bremen* were decided in which a court has enforced a forum selection clause against a defendant who has acceded to an adhesion contract.[9] Certainly there is no shortage of cases in which a defensive forum selection clause controls, most notably *Carnival Cruise Lines*. Far fewer are cases in the ordinary commercial context in which a plaintiff brings suit on the basis of a forum selection clause signed by the defendant, and at best courts are divided on how to approach such cases. *Compare* Mellon First United Leasing v. Hansen, 301 Ill.App.3d 1041, 235 Ill.Dec. 508, 705 N.E.2d 121

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[9] My colleagues in the majority bicker over whether any court has enforced against a defendant a forum selection clause in a contract of adhesion. I stand by my research. *Carnival Cruise Lines* did not involve a contract of adhesion, and neither did *Northwestern National Insurance Co. v. Donovan*, 916 F.2d 372 (7th Cir.1990). In *Donovan*, the court characterized some contracts, but not the contract in suit, as "adhesion" contracts. None of the indicia of an adhesive contract (disparity of bargaining power, practical necessity for the defendant to yield to the form contract demand of the plaintiff, unusual market power of the party imposing the form contract, etc.) was present in *Donovan*.

My colleagues have the honor of making this court the first to enforce a forum selection clause in a contract of adhesion against a defendant in derogation of his constitutional rights.

(1998) (refusing to exercise jurisdiction over out-of-state defendant based on forum selection clause in mailing equipment lease) *with* *Chase Third Century Leasing Co. v. Williams*, 782 S.W.2d 408 (Mo.Ct.App.1989) (exercising jurisdiction over out-of-state defendant based on forum selection***1307** clause in copier lease).[10] But no court has gone so far as to hold that a true contract of adhesion can subject a defendant to litigation in a court that would otherwise have no power over him. If any court goes so far, it should be the Supreme Court, not this court.

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[10] Any lessee, of course, signs a lease knowing with near-absolute certainty that the lessor will ultimately commence legal action should the lessee default on the lease payments. To sign a lease is to invite a lawsuit. Likewise, a franchisee signs a franchise agreement knowing that he or she assumes particular obligations to the franchisor. The same may not be true for a farmer purchasing a bag of soybean seed. Nor, like a cruise ship passenger, does a farmer buying seed intentionally expose himself to the law of another jurisdiction. *Cf. Hodes v. S.N.C. Achille Lauro ed Altri-Gestione*, 858 F.2d 905, 913 (3d Cir.1988) ("We note that this is not a case in which a consumer contracted to have a service rendered or buy a product in his/her home jurisdiction only to later learn of the existence of a forum selection clause.").

APPENDIX E

Only the Westlaw citation is currently available.

United States District Court,
E.D. Missouri, Eastern Division.

MONSANTO COMPANY,

Plaintiff,

v.

Homan MCFARLING,

Defendant.

No. 4:00CV84 CDP

Nov. 5, 2002

ORDER

PERRY, J.

For the reasons stated on the record at today's hearing,

IT IS HEREBY ORDERED that plaintiff's motion for summary judgment [# 157] is granted in part and denied in part as follows: Plaintiff is granted summary judgment as to all counts of defendant's counterclaim, and the counterclaim is dismissed, in its entirety. Plaintiff is granted summary judgment on liability only on Count II of plaintiff's complaint, patent infringement. Plaintiff is granted summary

judgment on Count III only as to liability for breach of the 1998 technology agreement. Summary judgment on Count III is denied as to the breach of contract claim for the 1997 technology agreement, and as to damages for the breach of the 1998 agreement. To the extent the defendant's affirmative defenses are duplicative of the counterclaim, those defenses are also stricken as insufficient, for the same reasons that the counterclaim fails.

IT IS FURTHER ORDERED that plaintiff's motions to dismiss [# 109] and to exclude testimony of witnesses [# 158, 159] are denied as moot.

IT IS FURTHER ORDERED that defendant's motion to continue trial setting [# 167] is denied.

This case remains set for jury trial on the two-week docket beginning on *December 2, 2002.* The following claims from plaintiff's complaint remain for trial: Count I (all issues); Count II (damages only); Count III (all issues with regard to the 1997 contract; damages only with regard to the 1998 contract); Count IV (all issues); and Count V (all issues). The parties are reminded that their pretrial submissions are due no later than *Tuesday, November 12, 2002,* and that those submissions should reflect the issues actually to be tried, as reflected in this order.

(A recess was taken.)

THE COURT: All right, here is what I am going to do on these pending motions, and although I will enter an order setting out my rulings on the motions, I'm not issuing an opinion setting out the reasons for the ruling. I'm telling you that now. So this

statement of my reasons is the only one you get. I'm not going to write one out, in other words, but I will write out an order.

I am going to grant the motion for summary judgment on the counterclaims, and I'm going to grant it in part and deny it in part on the plaintiff's claims, and let me start by going through the defendant's counterclaims. The first-on each of these, of course, I'm applying the summary judgment standards. There was an earlier motion to dismiss that was filed that I never ruled on while all this was going on, and I'm simply going to deny that as moot. I'm doing this on the basis of the summary judgment standard as to viewing the facts and inferences in the light most favorable on the counterclaim to the defendant, that is to Mr. McFarling, and determining whether there are any disputes of material fact, and therefore, whether Monsanto is entitled to judgment as a matter of law on the counterclaims, and in each case I find that even when I view the undisputed evidence in the light most favorable to Mr. McFarling, Monsanto is still entitled to summary judgment because there are no disputes of material fact.

So going through those counterclaims, the first one is the invasion of privacy and trespass claim, and Mr. McFarling has confessed summary judgment on that, so I don't need to discuss it further.

The second one, the second counterclaim was malicious interference with a business expectancy. I believe that Mississippi law would apply to this

claim because everything about it happened in Mississippi, and so therefore it has the most significant relationship to this claim, and so even though some of the other claims in this case are governed by Missouri law, this claim would be governed by Mississippi law.

The elements of that tort in Mississippi are very similar to those in Missouri, and basically that the acts were intentionally willful and they were calculated to cause damage to the plaintiff in his lawful business, and were done with the unlawful purpose or lack of justification, and that there were damages.

Monsanto has pointed to the absence of any evidence in the record to show that McFarling could prevail on this claim, and I find that there is no genuine dispute of material fact. There is no evidence in the record showing that Monsanto's acts as alleged in the counterclaim were calculated to cause damage to McFarling's business or were done for any unlawful purpose. The evidence to the contrary, undisputed, shows that Monsanto is simply enforcing its rights under its patents and its contracts.

Similarly, with abuse of process, which is the third counterclaim, this one would have Missouri law because this is-it's the process in this case that would be at issue, and in this case, there is no evidence that Monsanto made any illegal or improper use of the process that was issued. Again it's sort of the same factual-lack of factual dispute as on Count Two, and that's a necessary element of the tort of abuse of process, and there is simply no evidence in the record to show any improper or illegal use of the

process.

The fourth counterclaim is the violation of the Plant Variety Protection Act, and as Mr. Waide recognized, and even though he has made his arguments and has preserved them in his briefs, it's pretty clear under the Supreme Court decision of *JEM Ag Supply versus Pioneer Hi-bred* that this claim cannot survive as a matter of law, because that case did hold that plants could be patented under the Utility Patent Act, which is what happened here, and there is no independent cause of action under that statute, so it would be a declaration that the patents were invalid, and it appears they are valid, or that this is not a ground for setting them aside. So I will grant summary judgment on Count Four for that reason.

I'm jumping ahead. Counterclaim 7, the Mississippi antitrust law, the defendant has confessed summary judgment on, so plaintiff is entitled to summary judgment on that as well. That leaves then the three remaining counterclaims, which are Counterclaim Number 5, which alleges monopolization, attempted monopolization and conspiracy to monopolize, and Counterclaim 6, which alleges an unreasonable restraint of trade, and Counterclaim 7 that alleges patent misuse, and I'm going to discuss these somewhat together. The patent misuse is a little different.

Well, let me talk about the patent misuse claim first. In that one, the plaintiff-I mean the defendant, Mr. McFarling, alleges that Monsanto has engaged in patent misuse by impermissibly broaden-

ing the scope of its patent grant, and there is just no evidence whatsoever to support this argument. The law is clear that where there is a license agreement, as the first sale doctrine doesn't apply, and that single use licenses are appropriate, and that this is simply within the scope of this patent, so that's the reason for my denial or granting summary judgment on the patent misuse claim to the extent it's separate from the antitrust claims. Somewhat the patent misuse also has elements of antitrust, and the reasons I'm stating now for granting summary judgment on the antitrust claims also applies to that one.

First, I do believe that Mr. McFarling lacks standing to bring antitrust claims under any of the statutes he has cited. He is an indirect purchaser, and he does not have standing to bring such a claim. He also has not suffered any antitrust injury as required by the statutes, and so he does not have standing for those two separate reasons, and they are two separate doctrines. Both of them would preclude his counterclaim.

Alternatively, and I believe this goes both to the counterclaims-everything else I've said here goes to all of the counterclaims and to the extent they are recast as affirmative defenses, it knocks them out at affirmative defenses as well.

With regard to antitrust, alternatively, on the undisputed facts here, there is simply no evidence that Monsanto has exercised monopoly power or attempted or conspired to do so, or has illegally restrained trade. If the market-and I want to try to avoid ruling on the qualifications of the experts and

whether the expert opinions could be given. The expert reports in this case have a lot of different things in them, and there are also-different pieces are relied on at different times and there is also the depositions of the experts. I don't know if we were actually to have had a trial exactly what these experts would have said, and perhaps I would have had a separate *Daubert* hearing to have previewed their testimony to understand exactly whether they are qualified to make their statements, but even if I assume on the essential material facts that I would have heard their testimony, I still believe that I would grant summary judgment on these antitrust counterclaims.

Mr. McFarling's expert, there is an agreement that the market is the soybean market in the United States. If you define that market-if you take the undisputed facts and define them as Mr. Tollison has, you can say that Monsanto has more than 65 to 70 percent of the market. If you define it, interpret those facts as Monsanto does, you will say they have 20 to 25 percent of the market. But the facts leading up to that are undisputed. This is an issue of law, or how to interpret the facts, because Monsanto-the undisputed facts show that Monsanto sells the trait to-or licenses the trait to other soybean seed producers, who then produce genetically modified seeds. I don't believe that that means that Monsanto controls the market, and even if I accepted the defendant's experts' theories on this, it would not show that Monsanto has market power, because Monsanto is charging a technology fee, and not setting the prices on any of those seeds, or otherwise directing the ac-

tivities of people who are, I believe, its competitors, and I believe are still shown to be its competitors, so I don't believe that you can make the assumption that is made by the defendant's experts to get to the exercise of market power.

Again, as I stated, the single use licenses that have been issued in this case have been upheld by the courts. There is nothing unlawful about granting a single use license, and a patent holder who has a lawful patent can't be liable for maintaining a monopoly of power based simply on refusing to license the patent to others. That's what a patent gives you. That's the patent grant, and you can't be liable under antitrust for exercising your valid patent rights.

Now, the tying arrangements I need to address. Mr. McFarling is no longer arguing that the tying is-that Monsanto is forcing him to buy seeds tomorrow when he buys seeds today, and that's no longer an issue in the case, but if it were, I would have rejected it for the same reason that others have recognized. But what he is arguing is that the trait and the seed are separate products, and that the tying is that Monsanto is forcing the farmer to buy the seeds when the farmer buys the traits.

I believe that these are not separate products. It's not requiring purchase of a second item in order to buy a first item. I believe that they are, in fact, they are not two distinct products or services, and that be an element for a tying claim. I think that's clear if you just think about what could happen. The farmer can't go buy these two separate places, and couldn't even in the absence of Monsanto's agree-

ments, because the farmer can't do the genetic engineering. That has to be done in the production of the seed.

These products are not being illegally tied by any actions of Monsanto. They are inherently tied together as one single product, because the genetic trait is contained in the seed, and for there to be a seed capable of being planted, it has to have been propagated after the insertion of the gene, and so there is simply not two separate products, and that's another reason for rejecting on the merits the tying claim.

So those are my reasons for granting summary judgment on the defendant's counterclaims in favor of plaintiff on all of those counterclaims. I believe that each of those reasons also provides a basis for striking the affirmative defenses based on the same theories as is insufficient, and I don't believe that the defendant-well, the defendant will not be allowed to present evidence of the affirmative defenses for the same reasons that the counterclaims fail.

Now, Monsanto has also moved for summary judgment on its own claims-on two of its own claims. Monsanto has five counts in this case, and it has not moved to summary judgment on Count One of patent infringement of what we refer to as the '435 patent. It has not moved for summary judgment on Count Four, its conversion count, or on Count Five, its unjust enrichment count. Those were the counts that were in the first amended complaint that was filed back in May. Even if Monsanto has forgotten them, I

haven't. So, they are still around and will be heard at trial.

Monsanto has moved for summary judgment on Count Two, its patent infringement claim for the '635-I'm sorry, the '605 patent, and the undisputed evidence shows that Mr. McFarling infringed the patent by saving and replanting the seeds. He has admitted the same, and there are no valid defenses, so Monsanto is entitled to summary judgment on that claim of patent infringement.

That is a summary judgment on liability only. The issue of damages remains to be tried on the patent infringement count.

On Count Three, Monsanto has moved for summary judgment on its breach of contract claim. The breach of contract claim in the second amended complaint refers back to the facts and incorporates them by reference, and refers therefore to two separate contracts, the '97 technology agreement, and the '98 technology agreement. The undisputed facts show that Mr. McFarling signed both of these contracts.

However, with regard to the '97 technology agreement, there is insufficient evidence in the record before me for me to know what it said. It's not-there is no undisputed pieces of paper that says that is the '97 agreement. We have the front of it, but we don't have the back of it, so I don't know what the contract provisions are that Mr. McFarling allegedly breached in the '97 contract, and there has been some discussion about it, both at the preliminary hearing and in the papers, and again today, but in

the record on summary judgment, the terms of the '97 technology agreement are not apparent, and therefore, summary judgment will be denied on the breach of contract claim for breach of the 1997 technology agreement.

Now, with regard to the 1998 technology agreement, I believe that Monsanto has shown that it is entitled to summary judgment on the breach of contract claim as to liability, but not as to damages. We have the terms of the 1998 technology agreement by the terms Mr. McFarling promised that he would not save and reuse the seeds. He has admitted doing so. He has admitted breaching that agreement, and that is undisputed, so Monsanto is entitled to summary judgment on liability.

With regard to damages, I do not believe that Monsanto is entitled to summary judgment on the breach of contract claim. The liquidated damages provision says-let me say something about the '97 agreement. The one thing I am sure of, or at least I'm pretty sure of, is that the '97 agreement must have somewhat different language than that contained in the '98 agreement because the '435 patent wasn't issued until after Mr. McFarling signed the '97 agreement, and it's referred to in the '98 agreement, and so I have to believe that the '97 technology agreement wouldn't have the same language at least in that respect, so I don't know what it says, but that one patent wasn't even issued yet and it is referred to in the '98 technology agreement, because of course by then it was in effect.

The liquidated damages provision says that in

the event of a breach, the grower agrees that damages will include a claim for liquidated damages which will be based on 120 times the applicable technology fee. Now the undisputed evidence is that the applicable technology fee is $6.50 per bag of soybeans, and that when a farmer purchases the soybeans, the price he pays includes $6.50 per 50-pound bag for the soybeans. I believe that this liquidated damages clause means that the liquidated damages agreed to by the contract are 120 times $6.50 times the number of bags that the farmer purchased in that year, actually purchased from Monsanto, and there is a bunch of reasons why I believe it means that and does not mean what Monsanto argues that it means.

The purpose of liquidated damages is so that the parties to a contract can know when they enter into a contract in a case where actual damages would be very difficult to ascertain or hard to prove, that the parties know up front what the damages will be if they breach. It's an agreement. I'm telling you today if I breach this contract I'll owe you X dollars. Maybe it is X times something, but it is always going to be something that's capable of ascertainment so that it is predictable. The parties know what's going to happen. The plaintiff is not required to prove up its actual damages because that might be very hard for the plaintiff to do.

Under Missouri law, which would govern this contract, the requirements are that the damages must be a reasonable forecast for the harm to be caused by the breach, and the harm must be of a kind difficult to accurately measure. And then addi-

tionally, of course, the damages are not supposed to be unreasonably disproportionate to the amount of harm anticipated when the contract was made.

If Monsanto were right about what it says this clause means, first of all, the plaintiff would be put to the extreme burden of having to prove up exactly what it's not supposed to have to prove up, which is exactly how many bags, or how many bags of seeds were saved, and what was done with them, and where they were used, and if they were sold, who they were sold to, you know, and how much, etcetera, so that they could calculate actual damages, and that would defeat the whole purpose of liquidated damages. It would also defeat the purpose of providing a reasonable forecast, and a forecast means at the time of contract, we can forecast what the damages will be.

In construction contracts, for example, people say, if I delay turning the building over to you, if I don't turn the building over to you on time, then I'll pay you a thousand dollars a day. The plaintiff might have to prove how many days it was until the building was turned over, but that's usually pretty easy. The parties know. That's how much it's going to be per day if the building is late.

In the Missouri cases involving house sales, if I don't go through with the purchase of this sale, then you get to keep my 5000-dollar down payment as liquidated damages. The parties know at the time of the contract what the damages will be if the party subject to the liquidated damages clause does not comply. It's a reasonable forecast.

Monsanto's argument is not that at all. What Monsanto is trying to do is take what would be the actual damages and multiply them by the 120 multiplier, and that's not reasonable, and that's not what the contract says, or any kind of reasonable interpretation of contract language, so I'm denying summary judgment on damages because there is no evidence in the record as to how many bags of soybeans Mr. McFarling purchased from Monsanto in 1998. There was some testimony at the preliminary injunction hearing about how many he purchased in '97, but there is no evidence before me as to what he purchased in '98. I will say that I believe as I have interpreted the liquidated damages clause, that it would be enforceable under Missouri law as a reasonable forecast, because Monsanto doesn't know when somebody violates its contract whether it is going to replant the seeds once or for the next ten years, and so I believe that the 120 multiplier would be reasonable if it's applied the way I think it should be applied.

If it were applied the way Monsanto thinks it should be applied, it would be an unenforceable penalty, because that would be basically saying compute your actual damages, and then multiply them by 120, and I don't believe that would be appropriate. That sounds like a penalty to me. So under Missouri law, that would not be appropriate if you did it Monsanto's way. So I'm denying summary judgment on damages.

I am also denying as moot the motion to dismiss that was filed some time ago, and I am denying

as moot the motions to exclude the testimony of Mr. Tollison and Mr. Parvin.

I'm also going to deny Mr. McFarling's motion to continue the trial setting. There are limited issues remaining for trial in this case, and there is no reason we can't proceed to trial in December as scheduled. The issues remaining are on plaintiff's complaint, Count One, damages on Count Two, on Count Three, damages on the '98 contract, and all the issues on the '97 contract, on Count Four and Count Five, all of the issues are remaining for trial.

The case remains set for jury trial on the two-week docket beginning on December the 2nd. I would remind you all that your pretrial submissions are due next Tuesday, November 12th, and I would expect those pretrial submissions to only include stuff about the claims that are going to trial. They will look a little different than they would have before today, but you will provide me with jury instructions, etcetera, for the claims that are going to trial.

If it is Monsanto's intention to dismiss some of its claims, I would urge you to notify Mr. Waide of that immediately, if not sooner, so that he doesn't have to waste his time preparing pretrial submissions on claims that Monsanto does not intend to proceed on. I can't make you do that. I'm just telling you as a matter of courtesy that that's what you should do.

I know you have another case in this building the following week, which is also on limited issues, and I can tell you that I do not have anything else on my trial docket right now for December 2nd, so I an-

ticipate that you will be reached on Monday, December 2nd. I do know that I have to take Wednesday of that week off from trial, but, you know, I don't know how long it would take to try this case, but if it's three days, we'll do Monday, Tuesday and Thursday, and if it's two days, we'll finish Tuesday, and if it's four days, we'll do it Monday, Tuesday, Thursday, Friday, and you tell me how long you think the case is going to take. I expect we'll start on Monday. I'm not sure if we will guarantee it at this time, but that's my intention at this time, is that we will start on the 2nd, but a two-week trial docket.

I will put the order part of this in writing. As I say, I will not issue an opinion. I've told you my reasons, and so I'm not going to write an opinion, but I will write an order so it's perfectly clear what I'm ordering, all right? Anything further at this time? Okay, court is in recess.

(A recess was taken.)

REPORTER'S CERTIFICATE

I, TERI HANOLD HOPWOOD, RMR, Official Court Reporter for the United States District Court for the Eastern District of Missouri do hereby certify that the foregoing is a true and correct transcript of the proceedings had in this cause as same appears from my stenotype notes made personally during the progress of said proceedings.

APPENDIX F

363 F.3d 1336

United States Court of Appeals,
Federal Circuit.

MONSANTO COMPANY,
Plaintiff-Appellee,

v.

Homan McFARLING,
Defendant-Appellant.

Nos. 03-1177, 03-1228

DECIDED: April 9, 2004.

CLEVENGER, Circuit Judge.

The United States District Court for the Eastern District of Missouri entered summary judgment against defendant Homan McFarling and in favor of the Monsanto Company ("Monsanto") under Federal Rule of Civil Procedure 54(b) on some, but not all, of the claims being litigated. *See Monsanto Co. v. McFarling*, No. 4:00CV84 CDP, 2002 WL 32069634 (E.D.Mo. Nov. 5, 2002) (granting final judgment under Rule 54(b)); (E.D.Mo. Nov. 15, 2002) (granting Monsanto's motions for summary judgment). The district court held that, when McFarling replanted some of Monsanto's patented ROUNDUP READY® soybeans that he had saved from his prior year's crop, McFarling breached the Technology Agreement

that he had signed as a condition of his purchase of the patented seeds. The district court also held that McFarling had failed to demonstrate a genuine issue of material fact that prevented entry of summary judgment on any of his counterclaims or his defenses to Monsanto's breach-of-contract claim. Finally, the district court held that a liquidated damages provision in the Technology Agreement was valid and enforceable under Missouri law and entered a judgment in the amount of $780,000.00. McFarling appeals the district court's rulings on several of his counterclaims and defenses, as well as its ruling on the contractual damages provision. We affirm the district court on the counterclaims and defenses, but we vacate the district court's judgment as it relates to the damages provision and remand for a determination of Monsanto's actual damages.

I

Monsanto manufactures ROUNDUP® herbicide. ROUNDUP® contains glyphosate, a chemical that indiscriminately kills vegetation by inhibiting the metabolic activity of a particular enzyme, 5-enolpyruvyl-shikimate-3 phosphate synthase ("EPSPS"). EPSPS is necessary for the conversion of sugars into amino acids-and thus for growth-in many plants and weeds.

Monsanto also markets ROUNDUP READY® genetic-modification technology. In soybean seeds, the ROUNDUP READY® technology operates by inserting the gene sequence for a variant of EPSPS that is not affected by the presence of glyphosate but that still performs the sugar-conversion function required for cell growth. Thus, ROUNDUP READY®

soybean seeds produce both a "natural" version of EPSPS that is rendered ineffective in the presence of the glyphosate in ROUNDUP® herbicide, and a genetically modified version of EPSPS that permits the soybean seeds to grow nonetheless. ROUNDUP®, or other glyphosate-based herbicides, can thus be sprayed over the top of an entire field, killing the weeds without harming the ROUNDUP READY® soybeans.

The Monsanto Technology Agreement in dispute in this case lists six patents related to the various seeds that are licensed by the agreement, but Monsanto has asserted infringement in this case only under two patents that read on aspects of the use of the ROUNDUP READY® technology in soybeans. United States Patent No. 5,633,435 ("the 435 patent") relates to the gene encoding the modified EPSPS enzyme, and sweepingly claims, *inter alia*, the "isolated DNA molecule" encoding it, ***1339** 435 patent, claim 1; "[a] glyphosate-tolerant plant cell comprising" that DNA molecule, *id.*, claim 24; "[a] glyphosate-tolerane [sic] plant comprising" that plant cell, *id.*, claim 28; "[a] seed of a glyphosate-tolerant plant," *id.*, claim 79; a particular "transgenic soybean plant," *id.*, claim 86; and "[a] method of producing genetically transformed plants which are tolerant toward glyphosate herbicide," *id.*, claim 15. United States Patent No. 5,352,605 ("the 605 patent") relates to the use of a particular promoter in genetically modified plant cells. The 605 patent claims, *inter alia*, DNA sequences and plant cells containing the promoter. A promoter sequence is a DNA sequence located in proximity to the DNA sequence that encodes a protein and that, in part, tells

the cellular machinery how much of the protein to make.

Monsanto licenses its proprietary ROUNDUP READY® technology through two interrelated licensing schemes. First, it licenses the patented gene to seed companies that manufacture the glyphosate-tolerant seeds that are sold to farmers. Under this license, seed companies gain the right to insert the genetic trait into the germplasm of their own seeds (which can differ from seed company to seed company), and Monsanto receives the right to a royalty or "technology fee" of $6.50 for every 50-pound bag of seed containing the ROUNDUP READY® technology sold by the seed company. Monsanto also owns several subsidiary seed companies that comprise approximately 20 percent of the market for ROUNDUP READY® soybeans.

Second, Monsanto requires that seed companies execute licenses, rather than conduct unconditional sales, with their farmer customers. The 1998 version of this "Monsanto Technology Agreement" (the "Technology Agreement") between Monsanto and the soybean farmers using ROUNDUP READY® soybeans places several conditions on the soybean farmers' use of the licensed soybeans. In exchange for the "[o]pportunity to purchase and plant seed containing" the ROUNDUP READY® technology, soybean farmers agree, *inter alia:*

To use the seed containing Monsanto gene technologies for planting a commercial crop only in a single season.

To not supply any of this seed to any other person or entity for planting, and to not save any

crop produced from this seed for replanting, or supply saved seed to anyone for replanting.

To not use this seed or provide it to anyone for crop breeding, research, generation of herbicide registration data or seed production.

The Technology Agreement also contains a clause specifying damages in the event of breach by the farmer:In the event that the Grower saves, supplies, sells or acquires seed for replant in violation of this Agreement and license restriction, in addition to other remedies available to the technology provider(s), the Grower agrees that damages will include a claim for liquidated damages, which will be based on 120 times the applicable Technology Fee.

II

Homan McFarling operates a 5000-acre farm in Pontotoc County, Mississippi. In 1998, McFarling executed the Technology Agreement in connection with the license of 1000 bags of ROUNDUP READY® soybean seed. McFarling concedes that he saved 1500 bushels of seed from his 1998 crop, enough to plant approximately 1500 acres, and that he replanted them in 1999. He subsequently saved 3075 bags of soybeans from his 1999 crop, replanting them in 2000.

***1340** Soybeans destined for replanting are apparently cleaned after harvest. When McFarling sent his seeds saved from the 1998 season to a third party for cleaning, Monsanto had some samples taken, had the genetic makeup of the seeds tested at Mississippi State University, and thus learned that McFarling was saving ROUNDUP READY® seeds.

III

In January 2000, Monsanto filed suit against McFarling, alleging, *inter alia*, infringement of the 435 and 605 patents and breach of the Technology Agreement, and seeking a preliminary injunction prohibiting McFarling from "planting, transferring or selling the infringing articles to a third party." In his answer, McFarling raised affirmative defenses (styled alternatively as counterclaims when possible) both to liability-including, inter alia, violations of the Plant Variety Protection Act ("PVPA"), 84 Stat. 1542, as amended, 7 U.S.C. § 2321 et seq., the federal antitrust laws, the patent misuse doctrine, and the patent exhaustion and first sale doctrines-and to damages as calculated under the 120 multiplier in the Technology Agreement. He did not, however, challenge the validity of Monsanto's patents. Because McFarling's only connection with Missouri was a forum selection clause in the Technology Agreement, McFarling also brought a motion to dismiss based on a lack of personal jurisdiction.

The district court held that the forum selection clause was valid and entered a preliminary injunction against McFarling. On appeal, we affirmed the district court on both issues. *See Monsanto Co. v. McFarling*, 302 F.3d 1291, 1296, 1299-300 (Fed.Cir.2002) ("*McFarling I* "). Addressing Monsanto's likelihood of success on the merits, we held that the district court did not err in finding that McFarling had not demonstrated a reasonable likelihood of success on his affirmative defenses. *Id.* at 1297-99.

Back in the district court, Monsanto moved for

summary judgment on the infringement claim under the 605 patent, the breach of the Technology Agreement claim, and all of McFarling's affirmative defenses. The district court granted summary judgment in favor of Monsanto on all of McFarling's defenses as well as on liability with respect to Monsanto's 605 patent infringement claim and the Technology Agreement claim. On damages, however, the district court denied Monsanto's summary judgment motion. It left the damages issue regarding infringement of the 605 patent for trial. Additionally, although it held the liquidated damages clause in the Technology Agreement to be valid and enforceable (provided the 120 multiplier was applied to the number of bags of seed purchased rather than the number replanted), it concluded that there was insufficient evidence of the number of bags purchased by McFarling in 1998 to enter judgment on damages on the breach-of-contract claim. After McFarling stipulated that he purchased 1000 bags of ROUNDUP READY® soybean seed in 1998, the district court entered final judgment pursuant to Federal Rule of Civil Procedure 54(b) on Monsanto's breach-of-contract claim only in the amount of $780,000.00 (120 x $6.50 x 1000), and against McFarling on his counterclaims.

In the district court, Monsanto had argued that the 120 multiplier in the liquidated damages clause should be interpreted to produce damages of 120 times the technology fee times the number of bags of seed replanted by McFarling. The district court rejected that formula, reasoning that it would constitute an unlawful penalty because it simply imposes a multiple of 120 times Monsanto's actual

damages. To avoid that result and sustain the lawfulness*1341 of the liquidated damages clause, the district court fashioned a formula that multiplies 120 times the licensing fee times the number of bags of seed purchased.

IV

McFarling appealed the district court's final judgment to us, and we have jurisdiction to hear his appeal pursuant to 28 U.S.C. § 1295(a)(1). McFarling argues that the district court's grant of summary judgment on the breach-of-contract claim was erroneous on the following issues: (1) his patent-misuse defense, (2) his antitrust counterclaim, (3) his defense under the PVPA, and (4) his defense that the 120 multiplier in the liquidated damages provision of the Technology Agreement is a penalty clause that is unenforceable under Missouri law. We address each in turn below.

We review a grant of summary judgment by the district court without deference. *Combined Sys., Inc. v. Def. Tech. Corp. of Am.*, 350 F.3d 1207, 1209 (Fed.Cir.2003). "Summary judgment is appropriate if, drawing all factual inferences in favor of the nonmovant, there is no genuine issue of material fact and the movant is entitled to judgment as a matter of law." *Id.*

V

McFarling argues that Monsanto has committed patent misuse because Monsanto has impermissibly tied an unpatented product to a patented product. In McFarling's words, "[b]y prohibiting seed-saving, Monsanto has extended its patent on the gene technology to include an unpatented product-

the germplasm-or God-made soybean seed which is not within the terms of the patent."

The policy of the patent misuse doctrine is "to prevent a patentee from using the patent to obtain market benefit beyond that which inures in the statutory patent right." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed.Cir.1992). Therefore, in evaluating a patent-misuse defense, "[t]he key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect." *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed.Cir.1998); *see also Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed.Cir.1997); *Mallinckrodt*, 976 F.2d at 708; *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed.Cir.1986). In the cases in which the restriction is reasonably within the patent grant, the patent misuse defense can never succeed. *See Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127, 59 S.Ct. 116, 83 L.Ed. 81 (1938); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426-27 (Fed.Cir.1997); *Mallinckrodt*, 976 F.2d at 708. In cases in which a condition controlling the use of a patented invention extends beyond the patentee's statutory right to exclude, however, either a per se rule of patent misuse, *see Va. Panel*, 133 F.3d at 869 (discussing specific practices constituting per se misuse), or a rule of reason analysis, *see Mallinckrodt*, 976 F.2d at 708-09; *Windsurfing Int'l*, 782 F.2d at 1001-02 ("To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall

effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market."), must be applied.

Tying can constitute patent misuse: A patent licensor who conditions the license on a patent licensee's purchase of an unpatented material for use in the invention may, under certain conditions, be impermissibly extending the scope of the subject matter encompassed by the patent ***1342** grant. *See Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 30-31, 51 S.Ct. 334, 75 L.Ed. 819 (1931); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 665 (Fed.Cir.1986).

We need not plumb the complexities of tying as misuse of a patent, however, to determine that the district court correctly granted summary judgment for Monsanto. McFarling does not raise a typical tying allegation, and the mere recitation of the word "tying" is not sufficient to state a patent misuse defense. McFarling does not argue that he cannot purchase soybean germplasm without the genetic trait that brings the soybean within the ambit of Monsanto's patent. In fact, a market for such unmodified soybeans exists. *See McFarling I*, 302 F.3d at 1298. Neither does McFarling argue that he sought (or is capable of performing under) the type of license granted to the seed companies to purchase, make or use the patented gene sequence prior to its insertion into the seed.

McFarling's "tying" argument instead centers on his desire to replant the entire seed, including the genetic modifications, and on Monsanto's refusal to grant him permission to do so. McFarling proposes

that Monsanto could "untie" the seed and the trait by permitting the farmer to save and replant ROUNDUP READY® seed each year, provided the farmer still pays directly to Monsanto the required technology fee, rather than requiring a farmer to purchase both the seed and the genetic technology together at the beginning of each growing season. By suggesting that he should be allowed to pay the technology fee in conjunction with replanting of the second-generation soybeans, the closest McFarling comes to alleging a tying argument is a suggestion that Monsanto has tied together the legal right to exclude granted by a patent and the entire, physical patented product (or combination of germplasm and trait). At its simplest, McFarling effectively argues in different words that he should be granted a compulsory license to use the patent rights in conjunction with the second-generation ROUNDUP READY® soybeans in his possession after harvest. We decline to hold that Monsanto's raw exercise of its right to exclude from the patented invention by itself is a "tying" arrangement that exceeds the scope of the patent grant.

What perhaps truly irks McFarling is that the license controls what McFarling can do with second-generation seeds-the seeds that McFarling "made" using the seeds that he acquired under a strict license. McFarling argues that the prohibition in the Technology Agreement on "sav[ing] any crop produced from this seed for replanting" constitutes patent misuse; he does not suggest that the prohibitions on "supply[ing] any of this seed to any other person or entity for planting" and on "supply[ing] saved seed to anyone for replanting" should render the patent

unenforceable. Nonetheless, Monsanto tries rather unconvincingly to paint its restrictions in the Technology Agreement as permissible field-of-use restrictions on the first-generation seeds. *Cf. B. Braun*, 124 F.3d at 1426 ("[F]ield of use restrictions . . . are generally upheld."). Monsanto argues that it "may license a grower to 'use' its patented ROUNDUP READY® biotechnology to grow a commercial crop, but decline to license a grower to 'make' patented seed for use or sale as a crop seed." Based on the record before us, McFarling plants and grows the first-generation seed in an identical fashion whether he intends to sell the second-generation seed as a commercial crop for consumption or whether he intends to replant it. Thus, the Technology Agreement does not impose a restriction on the use of the product purchased under license but rather imposes***1343** a restriction on the use of the goods made by the licensed product.

Our case law has not addressed in general terms the status of such restrictions placed on goods made by, yet not incorporating, the licensed good under the patent misuse doctrine. However, the Technology Agreement presents a unique set of facts in which licensing restrictions on the use of goods produced by the licensed product are not beyond the scope of the patent grant at issue: The licensed and patented product (the first-generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies. Thus, given that we must presume that Monsanto's 435

patent reads on the first-generation seeds,[11] it also reads on the second-generation seeds. *See* 435 patent, col. 165, l. 12 (claiming "[a] seed of a glyphosate-tolerant plant"). Because the 435 patent would read on all generations of soybeans produced, we hold that the restrictions in the Technology Agreement prohibiting the replanting of the second generation of ROUNDUP READY® soybeans do not extend Monsanto's rights under the patent statute.

VI

McFarling next repackages his tying patent-misuse defense as a tying antitrust counterclaim. However, because we have found McFarling's allegations insufficient to present a genuine issue of material fact concerning whether Monsanto's licensing restrictions went beyond the boundaries of its patent grant, McFarling's antitrust counterclaim also fails. *Cf. In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d

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[11] In a post-argument letter, McFarling notes that Monsanto included a count of infringement under the 435 patent in its complaint but that it did not move for summary judgment on this count. McFarling argues that because the validity of the 435 patent will be subject to attack if and when the claim of infringement under the 435 patent is addressed in the district court, it is improper for this court to presume the patent's validity at this juncture. We disagree. We can review only the claims considered final by the district court under Federal Rule of Civil Procedure 54(b). McFarling failed to raise or argue the alleged invalidity of the 435 patent as a defense to the breach of the Technology Agreement claim or as an element of its patent misuse defense, and at this stage of the proceedings we deem the argument to have been waived for purposes of deciding this appeal.

1322, 1327-28 (Fed.Cir.1999) (concluding that an antitrust claim "does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant"); *Va. Panel*, 133 F.3d at 873 ("[B]ecause we determine that the conduct underlying the allegations of misuse does not amount to patent misuse, the same conduct cannot support a judgment that [the patentee's/licensor's] conduct violated the Sherman Act."). In this instance, the anticompetitive effect of which McFarling complains is part and parcel of the patent system's role in creating incentives for potential inventors.

McFarling also argues that "the district court improperly assumed the role of the fact finder and decided that the patented technology (the patented 'trait') and the seed are not two separate markets" without examining consumer demand for either. We agree with McFarling that, for antitrust purposes, whether there are two distinct products for tying purposes is a question of fact usually determined by examining consumer demand. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 19, 104 S.Ct. 1551, 80 L.Ed.2d 2 (1984) (analyzing the existence of separate markets based "on the character of the demand for the two items"). Furthermore, we agree that the district court failed to consider consumer demand. ***1344** However, the district court's finding concerning the unified nature of the market for the trait and the seed is not relevant to our holding, so we expressly decline to reach or review it. McFarling is not alleging that he is unable to, or even that he desires to, purchase a "natural" soybean seed and the ROUNDUP READY® genetic trait as distinct

items; he alleges only that Monsanto refuses to grant him a license to use the second-generation genetically modified seeds in his possession after harvest in his preferred manner.

VII

McFarling asks that we reconsider our ruling in *McFarling I* that the Plant Variety Protection Act does not demonstrate a congressional intent to preempt and invalidate all prohibitions on seed saving contained in utility-patent licenses. *See McFarling I*, 302 F.3d at 1299 ("[T]he right to save seed of plants registered under the PVPA does not impart the right to save seed of plants patented under the Patent Act."). We remain unpersuaded by McFarling's arguments.

In *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 122 S.Ct. 593, 151 L.Ed.2d 508 (2001), the Supreme Court held that plants were subject matter eligible for utility-patent protection under 35 U.S.C. § 101, *J.E.M. AG Supply*, 534 U.S. at 130-32, 122 S.Ct. 593, and that hybrid seeds also eligible for protection under the PVPA were not an exception to that general rule, *id.* at 138-44, 122 S.Ct. 593. In considering whether Congress's enactment of the PVPA implicitly altered the scope of patentable subject matter under section 101, the Court recognized that "there are no exemptions for . . . saving seed under a utility patent," *id.* at 142, 122 S.Ct. 593, as there is in the PVPA, *see* 7 U.S.C. § 2543 (2000), yet it held nonetheless that the two statutory schemes could "mutually coexist," *J.E.M. AG Supply*, 534 U.S. at 143, 122 S.Ct. 593 (internal quotation marks omitted). In light of the Supreme

Court's interpretation of Congress's intent, we conclude that Congress did not intend to prohibit owners of utility patents from enforcing seed-saving prohibitions in their licenses.

VIII

Finally, McFarling argues that the district court erred in holding that the 120 multiplier on the technology fee in the Technology Agreement was a valid and enforceable liquidated damages clause under Missouri law. Upon independent review, *see Robert Blond Meat Co. v. Eisenberg*, 273 S.W.2d 297, 299 (Mo.1954) (holding that the validity of a liquidated damages clause is a question of law and reviewing it without deference), we agree with McFarling that the liquidated damages clause in the Technology Agreement is invalid and unenforceable under Missouri law as it applies to McFarling's breach of replanting of saved seed.

A

Missouri law distinguishes between liquidated damages clauses, which are valid and enforceable, and penalty clauses, which are neither. *See Diffley v. Royal Papers, Inc.*, 948 S.W.2d 244, 246 (Mo.Ct.App.1997); *Paragon Group, Inc. v. Ampleman*, 878 S.W.2d 878, 880-81 (Mo.Ct.App.1994); *Burst v. R.W. Beal & Co.*, 771 S.W.2d 87, 90 (Mo.Ct.App.1989); *Grand Bissell Towers, Inc. v. Joan Gagnon Enters., Inc.*, 657 S.W.2d 378, 379 (Mo.Ct.App.1983).

"For a damage clause to be valid as fixing liquidated damages: (1) the amount fixed as damages must be a reasonable forecast for the harm caused by the breach; and (2) the harm must be of a kind

difficult to accurately estimate." *Diffley*, 948 S.W.2d at 246; *see also* ***1345***Paragon Group*, 878 S.W.2d at 881 (citing the Restatement (First) of Contracts and the Restatement (Second) of Contracts as the sources of the Missouri rule); *Grand Bissell Towers*, 657 S.W.2d at 379 (same). The two prongs of this conjunctive test are interrelated. "If the difficulty of proof of loss is great, considerable latitude is allowed in the approximation of anticipated or actual harm." *Luna v. Smith*, 861 S.W.2d 775, 779 (Mo.Ct.App.1993) (quoting Restatement (Second) of Contracts § 356, cmt. b); *see also Paragon Group*, 878 S.W.2d at 881 ("Where the difficulty of [measuring] loss is great, significant latitude is allowed in setting the amount of anticipated damages."). "The courts tend to construe such [contractual damages] stipulations, if doubtful, as punitive in nature." *Wilt v. Waterfield*, 273 S.W.2d 290, 295 (Mo.1954).

To survive the first prong of the Missouri test, a contractual damages provision "must be fixed on the basis of compensation." *Diffley*, 948 S.W.2d at 247. The reasonableness of the contractual damages provision is measured relative to an estimation, made at the time of contracting, of the compensation that would be required to negate the harm to the nonbreaching party in the event of breach.[12] *See*

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[12] Some Missouri cases suggest that a liquidated damages provision satisfies this first test if the damages are reasonably related to either the loss anticipated at the time of contracting or the loss that actually occurred upon breach. *See Paragon Group*, 878 S.W.2d at 881 (quoting Restatement (Second) of Contracts); *Luna*, 861 S.W.2d at 779 (same). Because $780,000.00 is grossly disproportionate to the loss that Monsanto actually suf-

Diffley, 948 S.W.2d at 246 (discussing "a reasonable forecast for the harm"); *Burst*, 771 S.W.2d at 90 ("[T]he damages fixed ... must not be unreasonably disproportionate to the amount of harm anticipated when the contract was made."); *Grand Bissell Towers*, 657 S.W.2d at 379 ("These rules requiring some reasonable relation between the damages agreed upon and those expected to result from the breach are not rules about actual damages."); *see also Info. Sys. & Networks Corp. v. Kansas City*, 147 F.3d 711, 714 (8th Cir.1998) (interpreting Missouri law to require that "[t]he validity of the liquidated damages clause must be viewed at the time the contract was executed"). In contrast, penalty clauses are impermissible because they are "designed primarily to compel performance" at the time of contracting. *Wilt*, 273 S.W.2d at 295; *see also Diffley*, 948 S.W.2d at 247; Restatement (Second) of Contracts § 356, cmt. a (1981) (noting that the "central objective behind the system of contract remedies is compensatory, not punitive," and that liquidated damages provisions may not "disregard the principle of compensation").

For a contractual damages provision to survive the second prong of the Missouri test, it must be anticipated that the loss will be difficult to measure

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fered in loss of technology fees due to McFarling's replanting of saved seeds, however, the contractual damages provision in the Technology Agreement can only survive if it was a reasonable forecast of damages at the time the contract was signed. Monsanto does not argue that the damages award in the district court should be upheld because it is reasonable in light of actual damages.

at the time breach is discovered; difficulty in measuring the extent of damages at the time of contracting is not sufficient. In *Luna,* for example, a Missouri court of appeals looked to the "determination that the amount of damages *actually sustained by defendants* would have been difficult to prove" in order to determine that proof of loss was difficult and that the liquidated damages clause was valid. 861 S.W.2d at 780 (emphasis added). Likewise, in *Paragon Group,* a Missouri court of appeals relied on the principle that "*actual damages***1346* *for breach* of real estate sales contracts are uncertain and difficult to prove" to determine that proof of loss was difficult to determine. 878 S.W.2d at 881 (emphasis added); *see also Carmel v. Dieckmann,* 617 S.W.2d 459, 461 (Mo.Ct.App.1981) ("Liquidated damage provisions in real estate contracts are frequently utilized because the actual damages in an action for breach are 'uncertain in amount and difficult to ascertain or prove.' " (quoting *Stein v. Bruce,* 366 S.W.2d 732, 736-37 (Mo.App.1963))). The harm that will flow from a breach is difficult to estimate at the time of contracting in nearly all contracts requiring ongoing performance, because the time of breach is not known at the time of contracting. Only by measuring the difficulty of proving loss at the time of the discovery of the breach is the second prong of the Missouri test interpreted as something other than a truism.

One long-standing litmus test that the Missouri courts use to determine whether a contractual provision determining damages is a reasonable estimate of the anticipated harm is what we term the "anti-one-size rule":

> [A] court may consider whether the agreement

contains various stipulations of various degrees of importance, the breaches of which would be easy to calculate in damages as to some and difficult as to others, in which event the sum specified would be construed as a penalty and not as liquidated damages "even though the parties in express terms have declared the contrary."

Wilt, 273 S.W.2d at 295 (quoting *Sylvester Watts Smyth Realty Co. v. Am. Sur. Co. of N.Y.*, 292 Mo. 423, 238 S.W. 494, 499 (1921)); *see also Plymouth Sec. Co. v. Johnson*, 335 S.W.2d 142, 152 (Mo.1960) ("Where a contract of sale contains several distinct covenants of various degrees of importance and the damages for breaches would be easy to calculate as to some of them and difficult as to others, the specification of a sum of money or definite property as damages for breach of the contract will be construed as a penalty designed to insure performance, even though the parties have expressly declared the provision to be one for liquidated damages."); *Morse v. Rathburn*, 42 Mo. 594, 601 (1868) ("[W]hen the agreement contains several distinct covenants, on which there may be divers breaches, some of an uncertain nature and others certain, with one entire sum to be paid on breach of performance, then the contract will be treated as one for a penalty, and not for liquidated damages."); *Jennings v. First Nat'l Bank of Kan. City*, 225 Mo.App. 232, 30 S.W.2d 1049, 1054 (1930).

This fixed rule of Missouri contract law is not unusual. Variations on this anti-one-size rule are applied in a number of jurisdictions. *See, e.g., United States v. J.C. Martin Lumber Co.*, 246 F.2d 58, 62 (5th Cir.1957) (applying Mississippi law) (la-

beling a contractual damages clause as a penalty clause when it provides for double payment and "without discrimination, provides the same penalty for leaving marked trees uncut as for cutting unmarked tress, and, as to trees injured through carelessness, provides the same penalty without regard to the extent in each case of the injury"); 22 Am.Jur.2d Damages § 709 (2003) (citing cases).

The anti-one-size rule is an intuitive corollary of the two-prong Missouri test that applies when a single formula for liquidated damages applies to multiple provisions in the contract. The rule highlights that both prongs of the test must be satisfied for each contract provision or each type of breach to which the contractual damages provision pertains. It reminds us that the validity of a damages clause must be measured on a provision-by-provision basis; the fact that the harm flowing from ***1347** the breach of one provision may be difficult to measure does not validate a contractual damages provision as it applies to the breach of another provision. Additionally, the anti-one-size rule provides a rule of thumb assay to determine if a contractual damages provision was fixed on the basis of compensation: If the same formula is used to calculate damages for breaches of two different provisions that would be expected to require two substantially different methods of compensation, then the contract on its face admits that the parties did not view the specified damages as compensatory. In some cases, this evidence intrinsic to the contract may provide a more reliable measure of the parties' intent than a hindsight comparison of the sum specified in the contract and the damage award required to compensate the

nonbreaching party for the damages actually sustained.

B

We conclude that the 120 multiplier in the Technology Agreement is not valid under Missouri law. It was not, at the time of contracting, a reasonable estimate of the harm that Monsanto would likely suffer in the event that McFarling breached the contractual prohibition on saving ROUNDUP READY® soybeans.

Monsanto's principal argument to the contrary is that ROUNDUP READY® soybeans can self-replicate at an exponential rate. One bag of soybean seed can yield 36 bags of soybean seed to save for the following season, although this figure may vary with different types of crops, seed varieties, geographic growing locations, planting rates, cultural practices, and growing conditions, among other factors. Based on this figure together with assumptions of infinite acreage on which to plant and no commercial sale of any soybeans, a farmer planting one bag of soybeans in year one would reap 36 bags to replant in year two, 1296 bags to replant in year three, and 46,656 bags to replant in year four. This simple narrative is forceful insofar it illustrates the potential magnitude of the harm that Monsanto could suffer from losing control of its proprietary technology. However, an illustration that breach of the Technology Agreement under particular conditions may be reasonably expected to lead to harm of a great magnitude is not sufficient to uphold the validity of the damages clause in its entirety. The damages clause is not valid as applied to the provision of the Technology

Agreement that prohibits saving soybean seed and that was breached by McFarling. In other words, the 120 multiplier does not pass muster under Missouri's anti-one-size rule.

1

The 120 multiplier in the Technology Agreement violates the anti-one-size rule because the identical Technology Agreement is used to govern a grower's rights with respect to several different crops that would be expected to replicate at different rates. If the anticipated harm flows from the self-replicating capacity of genetically modified seeds, then a reasonable estimate of compensation upon breach must logically be adjusted to incorporate the different rates of self-replication. The Technology Agreement makes no such adjustment.

The Technology Agreement signed by McFarling is used with Monsanto's proprietary strains of genetically modified cotton, soybeans, and corn: "This Monsanto Technology Agreement covers Roundup Ready® cotton, Bollgard® cotton, Bollgard® with Roundup Ready® cotton, Roundup Ready® soybeans, YieldGard® corn and Roundup Ready® corn." The report of Monsanto's damages expert and Monsanto's brief on appeal assume "a ratio of 36 to 1 for seed produced from seed planted" to calculate the harm from the ***1348** self-replication of soybeans from one growing season to the next. This same report, however, quotes Monsanto's 1997 Technology Agreement applicable to cotton only as stating that "[t]he average ratio of cotton seed produced from cotton seed planted is 120 to 1." (Based on the information presented in this report, the 120

figure first appeared in this cotton-only license and was only subsequently used in the cotton-soybean-corn license.) Because the rates of self-replication of cotton and soybeans differ by over a factor of three,[13] it is difficult to understand how the same 120 multiplier as applied to the technology fee could be a reasonable forecast of harm in the event of a breach by both a cotton farmer and a soybean farmer.

2

The 120 multiplier in the Technology Agreement also violates the anti-one-size rule because it specifies the same measure of damages in the event of breach of several different restrictive provisions of the contract that lead to different types of damage. The licensee can trigger the 120 multiplier in the Technology Agreement by violating any one of several distinct provisions: "In the event that the Grower *saves, supplies, sells* or *acquires seed for replant* in violation of this Agreement and license restriction . . . the Grower agrees that damages will include a claim for liquidated damages ..." (emphases added). We conclude that the nature of the harm to Monsanto flowing from breach of the provision prohibiting seed saving is fundamentally different from the nature of the harm to Monsanto flowing from breach of the provision prohibiting seed supplying and seed selling.

In fact, Monsanto repeatedly acknowledged the importance of the distinction between seed saving by the farmer for replant on his own farm and seed transfer to third parties for replant. Monsanto

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[13] The record does not contain information concerning the self-replication rate of corn.

argued in its brief that "[w]hether an infringer saves seed for himself only or transfers saved seed to other growers . . . significantly impacts the multiplier effect and the harm to Monsanto." Additionally, the following exchange occurred at oral argument between the court and Monsanto's attorney:

> Court: [T]he character or quality of the breach when [McFarling] breaches on his own farm is really different from Monsanto's perspective than the quality of the breach if he goes to the county fair and sells 5000 bags to 5000 different purchasers. Am I right?
>
> Counsel: Absolutely. And that's why the 120 times multiple is so reasonable.

In a post-argument letter, Monsanto responded to the court's citation of *Wilt*, as well as to the suggestion made during oral argument "that the [contractual damages] provision might be reasonable as applied to a grower who breached by selling saved seed, but not to one who breached by planting saved seed." Monsanto argued that the contractual damages provision was reasonable because Monsanto "cannot know whether a grower bent upon breach will do so by transferring or replanting saved seed, or both." Monsanto did not argue that the harms caused by the two distinct breaches of transferring and saving seed were similar in nature.

Under the anti-one-size rule, a liquidated damages clause is invalid if even one breach covered by the clause fails to qualify for enforceability as liquidated damages. Since the breach of seed saving cannot warrant liquidated damages, for the reasons

we state, we need not consider the consequences of the breach of acquiring seed for replant. Proof of loss is of course substantially more difficult when the ***1349** breaching farmer supplies or sells the seed to another farmer in violation of the agreement. If a farmer transfers seed to a third-party for replant, Monsanto not only has no privity of contract with the purchasers, but it also faces difficulty tracing the seed, locating and deposing the individuals who purchased it, and thus determining the amount of harm caused by the breach. In this situation, the difficulty of proof of loss would be considerable. However, if a farmer saves seed for replant in a future growing season, the number of bags planted is more readily ascertainable from a single defendant who is in privity with Monsanto.

Monsanto's expectation of the compensable loss flowing from the breach should also be lower when the breaching farmer replants on his own farm. The testimony of Monsanto's own damages expert suggests that a distinction between replanting and transferring is in part due to different rates of seed-replication in each scenario. The acreage of an individual grower for replanting is finite, placing a brake on the replication rate, whereas the geographical area available to plant resold seed is practically unlimited. Monsanto's damages expert assumed that soybeans self-replicated at a linear rather than an exponential rate in his only example demonstrating the harm to Monsanto that could flow from a farmer breaching by replanting seed rather than by transferring seed. The damages expert presumed that the farmer would save the same amount of seed each year, likely just enough to plant the

farm's acreage.

Additionally, the harm flowing from a farmer's decision to replant soybeans on his own farm can be arrested through injunctive relief such as the preliminary injunction Monsanto received in this case. Because of the difficulty of tracing seed once it has left the purchaser's farm, however, injunctive relief may never fully arrest the harm that would flow from the transfer of seed to a third party for replant. Thus, when the contractual damages clause is applied to calculate the damages arising from the replanting of seed on the purchaser's farm, the reasonableness of the 120 multiplier as a forecast of compensation must be measured vis-à-vis the harm that would occur between the date on which breach by replanting occurred and the date on which some form of injunctive relief could be obtained.[14]

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[14] If we were to reference future harm in our determination of whether the 120 multiplier is a reasonable forecast, McFarling's payment of the liquidated damages clause would amount to a license to practice the licensed technology in perpetuity. Monsanto would already have been compensated for all future use of the seed, and Missouri law does not permit double recovery via liquidated and actual damages for the same injury. *See Twin River Constr. Co. v. Public Water Dist. No. 6*, 653 S.W.2d 682, 694 (Mo.Ct.App.1983).

Because it sought to reserve the possibility of permanent injunctive relief, Monsanto at oral argument stated that it did not believe that the 120 damages multiplier was intended to compensate it completely for all the harm that could ensue from a breach, extending from the time of the breach into the indefinite future. Instead, Monsanto reserved the right to seek a permanent injunc-

When the contractual damages clause is applied to calculate the damages arising from the transfer of seed to third parties, however, the 120 multiplier as a reasonable forecast of compensation may be measured by the ***1350** possibility of long-term, unenjoined use of the seed by unidentified purchasers.

Because Monsanto could not have known at the time of contracting whether McFarling would breach the no-seed-transfer provisions or the no-seed-saving provision of the Technology Agreement, Monsanto argues that the harm is of a kind that is difficult to estimate, and that this difficulty of estimating harm should forgive the breadth of breaches of different magnitudes covered by the same damages formula. *See Luna*, 861 S.W.2d at 779 ("If the difficulty of proof of loss is great, considerable latitude is allowed in the approximation of anticipated or actual harm."). This argument fails for two reasons.

First, as explained above, the contracting parties must expect at the time of contracting that the actual harm will be difficult to measure at the time of breach. *See id.* at 780; *Paragon Group*, 878 S.W.2d at 881. In other words, actual harm must be difficult to calculate when one traditionally calcu-

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tion against McFarling, arguing that the 120 multiplier could be a reasonable forecast "of the amount of past harm ... that could have occurred as of the time that Monsanto obtained a contract judgment." That is, the 120 multiplier was "a reasonable estimate of the range of injury that would have already occurred by the time that Monsanto could (a) discover a violation, (b) bring a lawsuit, and (c) obtain a judgment" enabling an injunction, preliminary or permanent.

lates harm in a contract cause of action; uncertainty only at the time of contracting is insufficient. Second, a violation of the anti-one-size rule cannot be explained away merely by stating that one is unsure, at the time of contracting, which provision of the contract will be breached. Monsanto asserted in its post-argument letter that the damages provision did not violate the anti-one-size rule because "[a]t the time of contracting, Monsanto cannot know whether a grower bent upon breach will do so by transferring or replanting saved seed, or both." Monsanto, however, misunderstands the rule. Were Monsanto's formulation of the anti-one-size rule correct, the rule could never be enforced because the parties can never know, at the time of contracting, whether one or another of the contractual provisions, the breach of which is covered by a damages clause, will in fact be breached.

In summary, we hold that the 120 multiplier in the Technology Agreement is an unenforceable penalty clause because it violates the anti-one-size rule: While we express no opinion on whether the clause would be a reasonable forecast of the compensation required to make Monsanto whole upon breach of the contractual provision prohibiting supplying or selling seed to third parties, we conclude that it is not a reasonable estimate of the harm that would be anticipated to flow from breach of the provision prohibiting replanting seed.

3

As interpreted by the district court, the 120 multiplier in the Technology agreement also fixes an unreasonable forecast of compensation because it is

measured by the number of bags purchased, a number which does not necessarily relate to the number of bags replanted, supplied or sold.

The damages specified in the Technology Agreement are measured by multiplying the number 120 by the "applicable technology fee." As an issue of contract interpretation, the district court held that the "applicable technology fee" is measured by multiplying the $6.50 per-bag technology fee by the number of bags *purchased* in connection with the execution of the technology agreement. However, the number of bags *replanted or transferred* is the more accurate departure point for measuring harm. The harm caused by McFarling to Monsanto in the next year's growing season would be ten times greater to Monsanto if McFarling saved or transferred ten times more seed with the intent that it be replanted. There is no necessary relation, however, between the number of bags purchased and the number of ***1351** bags replanted or transferred. McFarling would cause Monsanto a specific amount of harm if he saved a thousand bags of seed and replanted it for only one year, but he would be obligated to pay a vastly different amount of damages under the district court's interpretation of the Technology Agreement if he had purchased a hundred or a thousand bags. It is therefore difficult to understand how any figure based on the number of bags purchased, rather than replanted or transferred, is a reasonable forecast of compensation.

C

Monsanto also argues that the 120 multiplier was justified based on types of harm other than the

harm from the self-replicating nature of the soybean seeds. We disagree.

Monsanto argues that the 120 multiplier is a reasonable forecast because it includes harm to Monsanto's ROUNDUP READY® brand. As Monsanto's expert testified, "[t]he loss of quality control may result in reduced yields, improper seed segregation and lower quality crops, causing a reduction in the value of Monsanto's brand" to purchasing farmers. We are skeptical of the magnitude of harm to Monsanto's ROUNDUP READY® brand that would flow from violations of the licensing agreement. Damage to a brand occurs when a consumer, here the farmer, receives a substandard product believing that the product is genuine. The farmer who saves and replants seeds, however, is well aware that he is not using the seeds in accordance with the terms required by Monsanto, and he is able to attribute any alleged reduction in quality of the second- or third-generation seeds to his own decision to replant rather than to Monsanto's initial product. Without denying that some minimal harm to the ROUNDUP READY® brand may result from a decision to save and replant seed, we do not believe that this harm contributes significantly to justifying a 120 multiplier as a reasonable forecast of the damages for breach of the Technology Agreement. Were McFarling to sell the saved seeds to other farmers and pass them off as first-generation seeds rather than as the second-generation seeds that they are, however, the potential for harm to the brand would increase. *Cf. ante* Section VIII.B.2 (discussing the differences between breaching by replanting and breaching by reselling).

Monsanto next argues that the 120 multiplier is necessary because if McFarling's breach in the form of saving and replanting seed were to pass undetected, then McFarling would gain a competitive advantage in the marketplace. "[O]therwise law abiding growers" would then be encouraged "also to use saved soybean seed containing Monsanto's patented ROUNDUP READY® biotechnology" in order to compete. This argument, however, is inimical to the compensatory nature of contract remedies: it sounds in deterrence, not compensation, and therefore suggests that the multiplier is in the nature of a penalty clause rather than a liquidated damages clause.

Finally, Monsanto argues that it loses the revenue from its technology fee each time a saved bag of ROUNDUP READY® soybeans is replanted. We agree that Monsanto suffers this harm, and we have no reason to suspect that the technology fee does not "reflect[ ] a reasonable return on Monsanto's significant research and development expenditures" as Monsanto argues. Yet, this argument standing by itself suggests that the technology fee alone, rather than 120 times the technology fee, is a reasonable forecast of harm.

D

When a damages clause is a penalty clause, the clause is unenforceable under*1352 Missouri law and only actual damages are available. *See Wilt*, 273 S.W.2d at 295 ("Where the sum named in a contract to be paid in a breach is held to be a penalty clause and not liquidated damages, the amount of recovery is only the actual damages sustained." (in-

ternal quotation marks omitted)). We therefore remand to the district court to compute actual damages based on the number of bags of seed saved and replanted.

IX

In conclusion, we affirm the district court's entry of summary judgment against McFarling on Monsanto's breach-of-contract claim on liability only. McFarling does not contest the prima facie case made by Monsanto that he breached the Technology Agreement, and he has not presented a genuine issue of material fact concerning his defenses as argued in the court below. We also affirm the district court's dismissal of McFarling's antitrust counterclaim. However, we vacate the district court's damages award because we hold that under Missouri law the provision in the Technology Agreement applying a 120 multiplier to the technology fee is an unenforceable and invalid penalty clause. We therefore remand to the district court for determination of actual damages, and for any other proceedings not inconsistent with this opinion.

COSTS

No costs.

AFFIRMED IN PART, VACATED IN PART AND REMANDED.

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IN THE

Supreme Court of the United States

HOMAN MCFARLING,
PETITIONER

V.

MONSANTO COMPANY
RESPONDENT.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR *AMICUS CURIAE* CENTER FOR FOOD SAFETY IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

The Center for Food Safety (CFS) is located at 660 Pennsylvania Ave., S.E., Suite 302, Washington, DC 20003, and 2601 Mission St., Suite 803, San Francisco, CA 94110. CFS is a tax-exempt, non-profit, membership organization incorporated in the District of Columbia.[1] Founded in 1997, the activities of CFS address the environmental, economic, ethical, human health, and social impacts associated with the development and commercialization of agricultural and food processing technologies.

The economic and social impacts associated with the expansion of intellectual property rights over sexually reproducing plants has been an area of particular focus for CFS. In January 2005, CFS released an extensive analysis of Monsanto's abuse of U.S. patent law to control the usage of staple crop seeds by farmers. CFS launched its investigation to determine the extent to which American farmers have been impacted by litigation arising from the use of patented genetically engineered crops. The report, entitled *Monsanto vs. U.S. Farmers,* details the results of this research, discusses the ramifications for the future of farming in the U.S., and outlines policy options for ending the persecution of America's

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[1] Pursuant to Supreme Court Rule 37.6, *amicus* states that no person other than *amicus* and its counsel authored this brief or made a monetary contribution to the preparation or submission of this brief.

farmers.[2] This seminal work has made CFS a leading public interest organization providing technical assistance to attorneys, legislators, farmers, and farm organizations defending against abusive patent infringement suits brought by genetically engineered seed producers such as Monsanto.

The case seeking certiorari presents critical issues of law that, if left to stand, will unjustly allow Respondents to further their control and reach over farmers throughout the country. Accordingly, CFS seeks to assist the Court in deciding questions relating to CFS' expertise in agricultural, environmental, and intellectual property issues.

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[2] Center for Food Safety, *Monsanto vs. U.S. Farmers*, Jan. 2005, *available at* http://www.centerforfoodsafety.org/Monsantovsusfarmersreport.cfm (last visited Nov. 20, 2007).

CONSENT TO FILE BRIEF

Per Supreme Court Rule 37(2)(a), *amicus curiae* have authority to file this brief through the consent of all parties. Letters indicating that counsel consent to this filing have been filed with the Clerk of the Court and accompany submission of the brief.

CORPORATE DISCLOSURE

Amicus curiae CFS is a non-profit corporation. CFS has no parent corporation, and no publicly held company has a ten percent (10%) or greater ownership interest in it.

SUMMARY OF ARGUMENT

Compelling reasons exist for a grant of certiorari in this case. Absent a grant of certiorari, the Federal Circuit panel's decision in *Monsanto Co. v. McFarling*, 488 F.3d 973 (Fed. Cir. 2007) (*McFarling III*) threatens to alter substantially the way in which farmers throughout the country use sexually reproducing seeds by imposing draconian restrictions on farmers' traditional right of seed saving and by providing seed manufacturers a vast extension of intellectual property rights that will be used to compel numerous and unjust legal settlements.

Implicated in the petition for writ of certiorari pending before the Court is solely the scope of claims under U.S. Patent No. 5,352,605 ('605 patent). The '605 patent does not claim the Roundup Ready trait as indicated by the panel below, but instead claims only a generic biotechnological tool for expression of an unspecified gene to generate an unspecified trait in plant cells. In spite of the extremely limited nature of the '605 patent claims, the *McFarling III* decision represents the second time a Federal Circuit panel erroneously has broadened the patent's claims to include Roundup Ready seeds.

The ramifications of this broadening of the '605 patent's reach are extraordinary. The lower court's failure to distinguish between a gene or cell, on the one hand, and seed or plant on the other, is particularly critical where the seed or the plant is self-reproducing. Because genetic material can be transmitted between

plants via cross-pollination and/or inadvertently mixed with other seed, the determination that the '605 patent claims encompass a seed or plant will extend those patent rights to any and all seeds containing the genetic material claimed by the '605 patent. The claims will apply to farmers regardless of whether those in possession of seed or a plant have intended or have knowledge that the seed or plants they are using contain the '605 patent's genetic material. Should the Court deny certiorari, this precedent will make every farmer who has not licensed and unwittingly plants seeds containing patented genetic material liable for patent infringement.

The Federal Circuit has recognized both the issue of gene flow from genetically engineered crops and the absurdity of allowing the resulting biological contamination to extend the reach of a patent. However, in the *McFarling III* decision the court fails to reconcile the two issues. Rather, the panel's construction of the '605 patent claims in *McFarling III* has the effect of broadening the reach of patents such as the '605 patent dramatically which will unjustly cause biological contamination to become a weapon for patent infringement actions. This intra-circuit incongruity provides a compelling justification to grant certiorari.

During the last five years, *amicus* CFS has analyzed and tracked Monsanto's ruthless investigation and prosecution of thousands of American farmers for seed-saving and the extraction of tens and perhaps hundreds of millions of dollars from

them. Monsanto's seed-saving investigations, compelled settlements, and lawsuits do more than inflict financial ruin on farmers. They engender a poisonous atmosphere of distrust and vengefulness in rural America. This continuing pattern of behavior suggests that no farmer is safe from Respondent's use of the long reach of the patent claims endorsed by the lower court.

Absent placing limits on the scope of the '605 patent by recognizing the ordinary and expected use of seed and the potential for biological contamination inherent in such seed and plants, the Court will condone an extraordinary and unjust expansion of patent control that will be used against the innocent farmer. Accordingly, a grant of certiorari is warranted.

ARGUMENT

Petitioners' arguments concerning the patent exhaustion doctrine and granting of super-compensatory damages revolve around the claim construction and scope of the '605 patent. If certiorari is not granted, the Federal Circuit panel's ruling will give Monsanto and other seed patent holders' unjustly expanded power to control the seeds that form the bases of American agriculture and the farmers who rely on them. The issues raised by Petitioners, in particular the application of the patent exhaustion doctrine, would recognize the ordinary and expected use of seeds by American farmers and place limitations on the scope and reach of the '605 patent. In determining whether to grant certiorari, the Court

must review the full implications on American agriculture should it allow *McFarling III* to stand.

I. Upholding the Federal Circuit's Claim Construction of the '605 Patent Will Grant Monsanto Disproportionate Rights over Third Parties.

As this case proceeded, Monsanto withdrew its claims based on a second patent and the Technology Agreement, proceeding only with claims concerning one patent. *McFarling III*, 488 F.3d at 977. Thus, implicated in the petition for writ of certiorari pending before the Court is solely the scope of claims under the '605 patent. Absent a grant of certiorari in this case, the Court will endorse a claim construction of the '605 patent that will pave the way for farmers throughout the United States to be subjected to unjust patent infringement actions.[3] As discussed below, this potentially unjust outcome provides the Court with a compelling reason to grant certiorari. *See* Sup. Ct. R. 10.

In determining the scope of the '605 patent, the Federal Circuit in *McFarling III* stated:

Although the patent does not explicitly

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[3] The first step in determining whether infringement of the '605 patent has occurred is claim construction to determine "the meaning and scope of the patent claims asserted to be infringed." *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996).

> claim seed containing a Roundup Ready trait, it claims plant cells having that genetic trait, and farmer-grown Roundup Ready soybeans undisputedly contain such cells. Thus . . . Monsanto's 605 patent reads on both purchased and farmer-grown Roundup Ready soybeans.

488 F.3d at 978.

Contrary to this inaccurate conclusion, the '605 patent does not claim, and makes absolutely no reference to, "a Roundup Ready trait" or a plant cell that contains it. Rather, the '605 patent claims only a generic biotechnological tool for expression of an unspecified gene to generate an unspecified trait in plant cells. This method involves linking the unspecified gene to a DNA "promoter" sequence derived from a plant virus to create a chimeric (i.e. hybrid) gene.[4] The promoter is a tool that facilitates expression of the trait encoded by the chimeric gene in plant cells, but does not in itself generate the Roundup Ready or any other trait.[5] As such, this explains why in prosecuting Mr. McFarling Monsanto originally asserted claims under both the '605 patent and U.S. Patent No. 5,633,435 ('435 Patent); the '605 patent claims the tool required for expression in the plant of

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[4] U.S. Patent No. 5,352,605 (issued Oct. 4, 1994).

[5] Only one claim (claim 11) in the '605 patent claims a specific gene, and that gene (neomycin phosphotransferase II) encodes an enzyme that confers resistance to the antibiotic kanamycin, not the Roundup Ready trait. *Id.*

the Roundup Ready gene/trait claimed by the '435 patent.[6] In other words, the teachings of the '605 patent are necessary, *but not sufficient*, to generate the Roundup Ready trait claimed by the '435 patent. Only together can both patents enable one skilled in the art to generate either plant cells or whole plants that express the Roundup Ready trait. Despite these limitations on the claims of the '605 patent, the *McFarling III* decision represents the second time a Federal Circuit panel erroneously has determined that " the Roundup Ready ® seeds are covered by the '605 patent." *Monsanto v. Scruggs*, 459 F.2d 1328, 1335 (Fed. Cir. 2006) (*Scruggs*).

Thus, if not corrected, the Federal Circuit's opinion in *McFarling III* will establish that the scope of the '605 patent expands well beyond the patent's written claims to include any object in which any of the genetic material claimed in the '605 patent resides. Such a vast and unwarranted expansion of the patent's reach will have enormous ramifications for U.S. agriculture and beyond.[7]

The distinction between a gene or cell, on the one hand, and seed or plant on the other, is

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[6] U.S. Patent No. 5,633,435 (issued May 27, 1997).

[7] On October 30, 2006, the United States Patent & Trademark Office entered an order granting a Request for Reexamination of U.S. Patent No. 5,325,605 (Patent office Control No. 90/008,253). These administrative proceedings throw into question whether the '605 patent was improperly issued in 1994.

particularly critical where the seed or the plant is self-reproducing. Because genetic material can be transmitted between plants via cross-pollination and the resulting seeds can in turn reproduce themselves, extending the scope of the patent claim to a seed or plant will extend those patent rights to all of the progeny containing the material claimed by the '605 patent. This extension of reach will apply regardless of whether the party possessing the plant has intended or has knowledge that the plants they are using contain the '605 material. The implications of this are vast given that the genetic traits introduced via genetically engineered crops such as Roundup Ready soybeans often end up in crops and fields where there is no notice, intention, or expected use of the patented genetic material. *See* discussion *infra*.

A denial of certiorari allowing the claim construction precedent endorsed in *McFarling III* to stand will also have repercussions well beyond the field of agriculture. For example, in the nascent field of gene therapy patented genetic material is often inserted into the cells of a human body (via a retroviral vector) in an attempt to produce a specific therapeutic agent that will cure a genetic disease.[8] The inserted genetic material seeks to achieve its efficacy by becoming incorporated into the DNA of the human patient. Taken to its logical extension, the Federal

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[8] *See, e.g.*, U.S. Patent No. 5,922,685 (issued Jul. 13, 1999) (claiming, *inter alia*, a genetic construct that will cause regression of established tumors when used in gene therapy for treating colorectal cancer).

Circuit panel's view of claim construction on the '605 patent would expand a patent claiming genetic material used in gene therapy to encompass the human patient. Further, if the genetic therapy were to seek a permanent change in the patient's DNA (i.e. a germline alteration), the patent's scope would extend further and encompass a claim to any of the patient's children, grandchildren, or other descendants whose body contains the patented genetic material. Such absurd results should not be condoned by the Court.

Regardless of the future applications of the Federal Circuit's decision, numerous recent events in the field of agricultural biotechnology exemplify how, if left to stand, the Federal Circuit's interpretation of the '605 patent will significantly expand Monsanto's control over farmers and derogate the existing rights of third parties.

In *McFarling III*, the court held that "as in the case of the 435 patent, Monsanto's 605 patent reads on both purchased and farmer-grown Roundup Ready soybeans. There is no patent misuse in the license terms for either patent." 488 F.3d at 978. In so stating, the court completely ignores that the "license terms" are no longer at issue in the case. For the purposes of this Court, the farmer-grown Roundup Ready soybeans planted by Mr. McFarling were the progeny of an unlicensed product. Thus, the precedent established in *McFarling III* has the unintended effect of making any farmer who has unwittingly planted seeds containing patented genetic material liable for patent infringement. Yet, patented genetic material has on numerous occasions contaminated farmers'

conventional crops[9] and planting stock through no fault of their own, without their knowledge or consent, and certainly without their having signed any licensing agreement for use of seeds that contain such patented material. This biological contamination of conventional and organic crops with pollen or seed from genetically engineered crops has become a serious problem in North America, fraught with economic and environmental implications. Measures taken to prevent contamination, such as buffer zones, have proven ineffective, as the distances recommended for segregation prove inadequate.

For example, in August 2006 and February 2007, the United States Department of Agriculture (USDA) announced widespread contamination of Southern long-grain rice supplies with two unapproved, experimental varieties of genetically engineered rice produced by Bayer CropScience[10] – LLRICE601 and LLRICE604, respectively.[11] Subsequent investigations revealed that both contaminating varieties had been released into the

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[9] By "conventional," amicus means seeds that have not been intentionally genetically engineered to contain patent-protected genes.

[10] Liberty Link rice (trade name of glufosinate-tolerant rice) is protected by at least one patent. *See* U.S. Patent No. 6,333,449 (issued Dec. 25, 2001).

[11] U.S. Dep't Agric., *Report of LibertyLink Rice Incidents*, Oct. 2007, at 1, *available at* http://www.aphis.usda.gov/newsroom/content/2007/10/content/printable/RiceReport10-2007.pdf (last visited Nov. 20, 2007).

environment only via USDA-approved field trial plantings from 1998-2001 under conditions that were supposed to prevent contamination of neighboring commercial rice.[12] Extensive testing revealed that LLRICE601 and LLRICE604 had contaminated the breeding stock[13] of two popular conventional varieties of rice, Cheniere and CL 131. In order to avoid a repeat of the debacle in the 2007 growing season, the State of Arkansas banned the planting of Cheniere and CL 131.[14] In March 2007, USDA issued "emergency action notifications" to prevent "the planting and distribution" of CL 131.[15] After a year-long investigation, USDA concluded that it lacked sufficient information to determine precisely how the contamination episodes had occurred.[16] These episodes resulted in widespread rejection of American rice

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[12] *Id.* at 2.

[13] Breeding stock is used to generate the certified rice seed sold to farmers for planting.

[14] David Bennett, *Arkansas Plant Board adopts new regulations to purge GM rice trait*, DELTA FARM PRESS, Dec. 29, 2006; David Bennett, *Ban on CL 131 not easy decision*, DELTA FARM PRESS, March 6, 2007.

[15] U.S. Dep't Agric., *Update for Rice Industry Regarding Clearfield 131 Long-Grain Rice Seed*, Mar. 9, 2007, *available at* http://www.aphis.usda.gov/newsroom/content/2007/030CL131update3-9-07.shtml (last visited Nov. 19, 2007).

[16] U.S. Dep't Agric., *Report of LibertyLink Rice Incidents*, Oct. 2007, *available at* http://www.aphis.usda.gov/newsroom/content/2007/10/content/printable/RiceReport10-2007.pdf (last visited Nov. 20, 2007).

exports in foreign markets. *See In Re Genetically Modified Rice Litig.*, No. 4:06-MD-1811 (E.D. Mo. filed May 17, 2007). Europe's largest rice importer, Ebo Puleva, stopped importing American long-grain rice. Contaminated rice products were pulled from supermarket shelves in Europe. The resulting sharp drop in rice prices cost American rice farmers an estimated $150 million in lost revenue.[17]

Similarly, in September of 2000, genetically modified StarLink corn was found to have extensively contaminated corn supplies, food products, and corn seed stocks.[18] *See In Re StarLink Corn Prods. Liab. Litig.*, 212 F. Supp. 2d 828 (N.D. Ill. 2002) (refusing to dismiss negligence per se, public nuisance and private nuisance claims against seed manufacturer Aventis for dissemination of genetically engineered corn seed that contaminated the U.S. corn supply). Although StarLink was never planted on more than 0.4% of U.S. corn acreage (362,000 acres in 2000),[19] up to 22% of corn

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[17] Rick Weiss, *Gene-Altered Profit-Killer*, WASH. POST, Sept. 21, 2006, at D1.

[18] StarLink corn is protected by at least one patent. *See* U.S. Patent No. 6,028,246 (issued Feb. 22, 2000).

[19] U.S. Dep't Agric., Econ. Research Serv., *StarLink: Impacts on the U.S. Corn Market and World Trade Feed Yearbook*, Apr. 2001, *available at* http://www.ers.usda.gov/Briefing/Biotechnology/starlinkarticle.pdf (last visited Nov. 20, 2007).

grain lots tested positive for StarLink in early 2001.[20] StarLink had not been approved for human food use (only for animal feed or industrial uses) because of concerns that the insecticidal protein it contained could cause food allergies if consumed by humans.[21] Over 300 StarLink-contaminated food products were recalled from supermarket shelves.[22] Seventeen state attorneys general took action against Aventis to obtain compensation for losses suffered by farmers in connection with the episode, including farmers whose non-StarLink planting seed had somehow become contaminated with StarLink.[23] A voluntary USDA-sponsored testing program revealed that at least 63 corn seed firms that had never been licensed by Aventis to grow StarLink for sale to farmers as planting stock nevertheless found some of their corn lines contaminated with StarLink.[24] This means that some, albeit low, proportion of non-StarLink seed

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[20] Anthony Shadid, *Testing Shows Unapproved, Altered Corn More Prevalent Than Thought*, BOSTON GLOBE, May 17, 2001, at A2.

[21] Marc Kaufman, *Biotech Critics Cite Unapproved Corn in Taco Shells*, WASHINGTON POST, Sept. 18, 2000, at A2.

[22] *Id.*

[23] *US states, Aventis into agreement regarding StarLink*, REUTERS, Jul. 25, 2001.

[24] U.S. Dep't Agric., *USDA Purchases Cry9C Affected Corn Seed From Seed Companies*, Jun. 15, 2001, *available at* http://content.fsa.usda.gov/pas/FullStory.asp?StoryID=257 (last visited Nov. 20, 2007). USDA compensated these seed firms from $13-18 million for destruction of their contaminated lines.

purchased by farmers for planting was in fact StarLink seed. This pervasive contamination of corn seed stock explains why StarLink genetic traits continued to show up in the corn supply for at least three years after its cultivation was banned in 2000.[25]

In 2004, the Union of Concerned Scientists published a report documenting the widespread nature of genetic contamination of conventional seed from genetically engineered seeds. The report found that seeds of conventional varieties of corn, soybeans and canola purchased from the same retailers used by U.S. farmers "were pervasively contaminated with low levels of DNA sequences originating in genetically engineered varieties of those crops."[26] The contaminating sequences in soybeans and canola were all from Roundup Ready versions of those crops.

Recently, federal courts have recognized that when genetically engineered Roundup Ready plants are released into the environment their traits will be transferred into crops being grown by farmers who neither purchased nor intended to use or possess the patented genetic material. In discussing the pending

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[25] Paul Jacobs, *Banished biotech corn not gone yet: traces raise health, other key issues*, SAN JOSE MERCURY NEWS, Dec. 1, 2003.

[26] Margaret Mellon & Jane Rissler, *Gone to Seed: Transgenic Contaminants in the Traditional Seed Supply*, 2004, at 1, available at http://www.ucsusa.org/assets/documents/food_and_environment/seedreport_fullreport.pdf (last visited Nov. 20, 2007).

commercialization of Roundup Ready alfalfa, the court in *Geertson Seed Farms v. Johanns*, 2007 WL 518624, at *5 (N.D. Cal. 2007), recognized that "[o]nce the gene transmission occurs and a farmer's seed crop is contaminated with the Roundup Ready gene, there is no way for the farmer to remove the gene from the crop or control its further spread." Similarly, a federal court has recognized that the gene flow from the field testing of Roundup Ready creeping bentgrass is capable of transferring the genetic trait to resident wild grasses and creating fertile offspring that can further spread the trait in the environment. *See Int'l Ctr. For Technology Assessment v. Johanns*, 473 F. Supp. 2d 9 (D.D.C. 2007).

Increasingly, this biological contamination is causing hardship to American farmers. *See, e.g., Campbell v. AG Finder Iowa Nebraska*, 2004 LEXIS 531 (Iowa Ct. App. Mar. 24, 2004) (describing how the presence of genetically engineered soybeans prevented a farmer from obtaining organic certification). Farmers often unwittingly plant genetically engineered seed comprised of some low but unknown proportion of conventional seed they have purchased. If this genetically engineered seed contains patent-protected genetic material, under the reasoning of *McFarling III*, such planting will constitute unlicensed use of the pertinent company's technology subject to infringement action based solely on the expanded scope of a patent's claim. Such a perverse result should not be sanctioned by the Court.

II. The '605 Patent Should Not Be Interpreted to Extend Its Reach Through the Unclean Hands of Biological Contamination.

It is neither reasonable nor just for the Court to endorse interpretations of the '605 patent claims that engenders rights well beyond the intended use and value of the '605 patent. The patent was not granted to be used as cudgel against the American farmer. However, the Federal Circuit has not reconciled its broad expansion of the '605 patent's reach in both *McFarling III* and *Scruggs* with the real world implications of gene flow and the resulting biological contamination.

In 2004, one Federal Circuit judge recognized that expanding the scope of patented genetic material to include claims to any plant containing that material posed significant issues which the court had yet to address. *SmithKline Beecham Corp. v. Apotex Corp.*, 365 F.3d 1306 (Fed. Cir. 2004) (Gajarsa, J. concurring). In a concurring opinion, the court prophetically stated:

> This crystalline compound raises a question similar to one that might arise when considering the invention of a fertile plant or a genetically engineered organism, capable of reproduction, released into the wild. Consider, for example, what might happen if the wind blew fertile, genetically modified blue corn protected by a patent, from the field of a single farmer into neighboring

> cornfields. The harvest from those fields would soon contain at least some patented blue corn mixed in with the traditional public domain yellow corn--thereby infringing the patent. The wind would continue to blow, and the patented crops would spread throughout the continent, thereby turning most (if not all) North American corn farmers into unintentional, yet inevitable, infringers. The implication--that the patent owner would be entitled to collect royalties from every farmer whose cornfields contained even a few patented blue stalks--cannot possibly be correct.

Id. at 1331.

While separately acknowledging the adverse implications of gene flow from genetically engineered crops and the absurd injustice of allowing biological contamination to extend the reach of a patent, the Federal Circuit has failed to recognize the pernicious consequences of the two issues taken together. The unsupportably broad construction of the '605 patent claims in *McFarling III* (and *Scruggs*) will encourage fundamentally unjust prosecution of American farmers by patent-holding seed firms such as Monsanto. This intra-circuit incongruity provides another compelling reason to grant certiorari.[27]

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[27] The U.S. Court of Appeals for the Federal Circuit has exclusive jurisdiction over all appeals from federal trial courts

III. Confirming the Broad Scope of '605 Patent Will Allow Monsanto to Unjustly Enrich Itself at the Expense of the American Farmer.

In broadening the reach of the '605 patent, the Federal Circuit panel has opened the door for Monsanto to take advantage of the strict liability offense of patent infringement. *See Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (stating that patent infringement is a "strict liability offense" in which "a court must award 'damages adequate to compensate the infringement,' regardless of the intent, culpability or motivation of the infringer"). The past behavior of the Respondent suggests that it will use its new found power to unjustly enrich itself to the farthest extent possible.

As one federal court has poignantly described, the tactics used by Respondent against farmers when it seeks recovery for alleged infringement of their intellectual property rights are extreme. The court aptly depicts Monsanto's behavior:

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in patent infringement cases. *See* 28 U.S.C. § 1295; *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 651-52, n.3 (1999). Thus, the traditional conflict in decision with another circuit on an important matter that warrants the granting of certiorari in non-patent cases cannot be present in this matter. However, an intra-circuit Federal Circuit disagreement on the breadth of a patent, as shown here, is somewhat akin to a typical split, given the subject matter and the circuit's exclusive jurisdiction.

> In order to protect it patents, Monsanto sent "agents" into the farming community to ensure that farmers were not purchasing Roundup Ready seed, harvesting it, saving seed from the crop and then planting second generation Roundup Ready seed the next season. Under the patents, farmers were obligated to purchase new Roundup Ready seed each year and were prohibited from saving second generation seed. This changed the way farmers had done business as traditionally they saved seed, cleaned it and replanted it the following year. The scorched-earth policies used by Monsanto in enforcing the single-use restriction against farmers in some instances altered the customary neighborly relationships for which farmers are known. Instead of helping each other with barn-raisings and equipment sharing, those caught saving seed, a practice that is hundreds of years old, were turned into "spies" against their neighbors, replacing the atmosphere of cooperation with one of distrust and suspicion.

Stratemeyer v. Monsanto, No. 02-CV-505, slip op. at 3-4 (S.D. Ill. March 28, 2005) (footnote omitted). These finding are consistent with the analysis performed by CFS. It is no wonder that several state legislatures have enacted laws designed to curb some of Monsanto's

abusive practices.[28]

Over the last five years, CFS has analyzed and tracked Monsanto's investigation and/or prosecution of thousands of American farmers for seed-saving, extracting tens and perhaps hundreds of millions of dollars from them. CFS' most current analysis has found a total of one hundred twelve (112) lawsuits filed by Monsanto against U.S. farmers, of which eighteen (18) are ongoing.[29] Of the completed cases, fifty-seven (57) have resulted in known damage awards totaling $21,583,431.99. Twenty-four (24) of the cases have resulted in confidential settlements and thirteen (13) others were dismissed without reporting whether a financial settlement was involved. In sum, these lawsuits involve three hundred seventy-two (372) farmers and forty-nine (49) farm businesses, mostly small operations.

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[28] *See* H.B.1442, 57th Leg. Assembly (N.D. 2001) (preventing patent holders from entering and taking crops from farmer's land without meeting enumerate preconditions); H.B. 1571, 113th General Assembly, 1st Reg. Sess. (Ind. 2003) (requiring patent holder to provide written notice before entering farmer's land, permitting farmer to be present when seed samples are taken, and requiring matching samples be provided to the farmer).

[29] *See Monsanto vs. U.S Farmers*, *supra* note 2, at 31-34. Figures cited here represent CFS' internal update of the data contained in the original 2005 report current as of October 24, 2007. The 2005 report documents Monsanto having filed 90 lawsuits against involving 147 farmers and 39 small businesses or farm companies residing in 25 different states.

Startling though these numbers are, they do not begin to tell the whole story. As the district court noted in an earlier decision during these proceedings, "[t]he vast majority of cases filed by Monsanto against farmers have been settled before any extensive litigation took place." *Monsanto Co. v. McFarling*, 2005 WL 1490051, at *5 (E.D. Mo. 2005). CFS has been able to use materials downloaded from Monsanto's website in 2006 to determine an approximate scope and cost to farmers from these out-of-court settlements. In a series of ten state/regional updates involving nineteen states, Monsanto provided color-coded maps illustrating the number of "seed piracy matters" by county and the "average settlement" for the given state/region.[30] All cases reported involved the company's Roundup Ready soybeans. A collation of these data for all nineteen states indicates that Monsanto has collected between $85,653,601 to $160,594,230 in settlements with farmers in 2,391 to 4,531 seed piracy matters.[31] In all

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[30] Monsanto, *Seed Piracy: [State/Region] Local Update*, Jun. 2006, *available at* http://www.centerforfoodsafety.org/pubs/Monsanto%20November%202007%20update.pdf (last visited Nov. 18, 2007) (copies on file with Amicus). Publications were provided for the following states/regions: Illinois, Indiana, Iowa, Kentucky, Michigan-Ohio, Minnesota-North Dakota-South Dakota, Missouri-Kansas, Nebraska, North Carolina-South Carolina and Virginia-Maryland-Delaware-New Jersey-Pennsylvania.

[31] *Id.* In each of the *Seed Piracy* updates, each county is color-coded for a range of seed piracy matters (1-3, 4-7, 8-13, 14-23 or 24-36). CFS added together the lower-and upper-bound figures for each county to provide for the minimum and maximum number of seed piracy matters, respectively, for the

ten states/regions, Monsanto reports that the average damages collected for each "unit" (or 50 lb. bag) of seed allegedly saved and replanted by the farmer is "~$100."[32] As the Court should recognize, this "$100 per bag" award average is 150% of the "$40 per bag" awarded in the *McFarling III* decision, and represents a 15-fold multiple of the $6.50-per-bag Technology Fee established royalty. Such figures serve to illustrate the extremely disproportionate leverage Monsanto will have secured to wring settlements out of American farmers should the broad construction the '605 patent claims and the use of an excessive hypothetical royalty be upheld.

Monsanto's seed-saving investigations, compelled settlements, and lawsuits do more than inflict financial ruin on farmers. They engender a poisonous atmosphere of distrust and vengefulness in rural America. Monsanto's widely advertised "snitch line" turns farmer against farmer.[33] *Amicus* CFS has spoken with numerous farmers who were "turned in" to

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given state or region. Multiplication of the minimum and maximum seed piracy matters by the "average settlement" gives the minimum and maximum settlement amounts for the given state/region. Summation of these figures for all of the nineteen (19) states covered by the updates gives the minimum number of settlements (2,391), the maximum number of settlements (4,531), and the range of settlement amounts.

[32] *Id.*

[33] *Id.* ("Anyone with concerns or questions about see piracy can anonymously call 1-800-768-6387").

Monsanto by a neighbor, often to satisfy a long-standing grudge or to gain advantage in a land dispute. Farmers explain that landlords deny renewal of their leases for agricultural land merely because they are under investigation by Monsanto. Monsanto also employs agents (often retired farmers) to induce farmer suspects to engage in illegal sale or purchase of patented seeds, behavior closely resembling entrapment.

This continuing pattern of behavior suggests that no farmer is safe from Respondent's long reach. Farmers have been sued after their fields were contaminated by pollen or seed from someone else's genetically engineered crop:[34] when genetically engineered seed from a previous year's crop has sprouted, or "volunteered," in fields planted with non-genetically engineered varieties the following year,[35] and when seed dealers sold them Monsanto's seed without having presented them with a Technology Agreement setting out the seed-saving restrictions.[36] The extension of Monsanto's patents claims under the '605 patent to cover any seed or plant in which the genetic material end up will serve to extend this inequitable control over farmers across the country.

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[34] *See, e.g., Schmeiser v. Monsanto Canada, Inc.* [2004] S.C.R. 34 (Can.).

[35] *See Monsanto vs. U.S. Farmers, supra* note 2, at 40-41.

[36] *Id.* at 42-45.

Should seed-related patents be allowed to serve as the sole basis for infringement, the Court will have embraced legal reasoning that allows seed companies to prosecute farmers for their unwitting use of products which they do not want and may even cause them serious financial harm.

The application of the doctrine of patent exhaustion as advocated by Petitioner in this case will recognize the ordinary and expected use of seed and the biological reality of widespread seed and crop contamination. Absent placing limits on the scope of the '605 patent, the Court will have condoned an extraordinary and unjust expansion of patent power that will be used against the innocent farmer.

CONCLUSION

Accordingly, there are compelling reasons for granting the petition for certiorari.

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No. 07-241

IN THE

Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether the court of appeals correctly concluded that the fee paid to the owner of patented biotechnology embodied in genetically modified seeds, in exchange for a limited license that authorizes the purchasing grower to use the purchased seed to plant a commercial crop in one growing season, was not an "established royalty" for petitioner's infringing acts, which indisputably violated the terms of the limited license by using the second-generation seeds containing the identical patented biotechnology to plant additional unauthorized crops in subsequent growing seasons.

2. Whether the court of appeals otherwise properly upheld the jury's damages award in this case as supported by the evidence and not grossly excessive.

3. Whether the doctrines of patent exhaustion and patent misuse can properly be used to prohibit the owner of patented, self-replicating biotechnology embodied in genetically modified seeds that are sold to growers from licensing such growers only to sell the resulting crop as a commodity, such that any second-generation seeds containing the patented technology (which have themselves never been sold) cannot be used or sold to others for use as seed.

PARTIES TO THE PROCEEDING

The only parties to the proceeding are those identified in the caption.

RULE 29.6 STATEMENT

Monsanto has no parent corporation, and no publicly held corporation owns more than 10% of its stock.

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IN THE

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No. 07-241

HOMAN MCFARLING,

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ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

OPINIONS BELOW

The decision of the court of appeals (Pet. App. 1a-17a) is reported at 488 F.3d 973. The decision of the district court (Pet. App. 18a-32a) is unreported. Prior decisions of the court of appeals are reported at 363 F.3d 1336 and 302 F.3d 1291.

JURISDICTION

The judgment of the court of appeals was entered on May 24, 2007. Pet App. 1a. The petition for a writ of certiorari was filed on August 22, 2007. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

1. This patent infringement dispute arises out of respondent Monsanto's efforts to protect its patented biotech-

nology used in soybean plants and plant seeds that have been genetically modified to be resistant to glyphosate-based herbicides. After a considerable investment of resources, Monsanto developed recombinant DNA technology that, when inserted into certain commercial crops (including soybeans), protects the resulting genetically modified plants from being harmed by applications of glyphosate-based herbicides. This biotechnology permits growers to spray glyphosate-based herbicides over an entire field to control weeds without harm to their crops, thus allowing for much more efficient and safer weed control than is possible with unmodified plants. *See* Pet. App. 2a. Monsanto sells the Roundup® family of glyphosate-based herbicides and markets seeds of the crops genetically modified with its patented biotechnology under the trade name Roundup Ready®. *Id.* at 106a.

In this case, Monsanto asserted two patents: U.S. Patent Nos. 5,352,605 ("the '605 patent") and 5,633,435 ("the '435 patent"). The '435 patent claims a DNA molecule that encodes a genetically modified, glyphosate-tolerant enzyme and, *inter alia*, a plant cell and a plant seed containing that DNA molecule.[1] The '605 patent claims a separate and unique promoter gene that facilitates a plant's production of the modified enzyme (and a plant cell containing that gene). *See* Pet. App. 3a. It is undisputed that Roundup Ready® soybean seed contains the two types of DNA molecules (or genes) as claimed in each patent. *See id.*

To market its patented biotechnology, Monsanto licenses seed companies to produce seeds containing the herbicide-resistant trait by inserting the patented technology into soybean DNA and then to sell the resulting Roundup Ready® seeds to growers subject to separate license restrictions. Under the terms of their licenses with Monsanto,

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[1] The '435 patent was reissued on August 22, 2006 (U.S. Patent RE 39,247). As described below, Monsanto dismissed its infringement claim under the '435 patent after McFarling's second appeal to the Federal Circuit.

the seed companies that produce Roundup Ready® seed are required to have the growers who purchase Roundup Ready® seeds execute separate licenses with Monsanto. Pet. App. 3a. Hence, Monsanto's licensing program involves two different types of licenses: a license authorizing the manufacturing seed companies to make and sell Roundup Ready® seed under specified conditions, and a license allowing purchasing growers to use the purchased seed to plant a commercial crop and to sell the soybeans resulting from that crop as a commodity.

This grower's license is known as a "Technology Agreement." Under the terms of this license, growers agree to use the patented, genetically modified seeds only for planting a single commercial crop, and further agree not to plant second-generation seeds that were produced from the purchased seed or to sell or supply those seeds to others for planting. Growers who decide to continue planting Roundup Ready® soybean seeds must therefore purchase new seeds from licensed Monsanto seed distributors each growing season. Under the Technology Agreement, the grower also agrees to pay Monsanto a technology fee, which during the time periods relevant here was $6.50 for each 50-pound bag of soybean seeds sold by its licensees. In addition to collecting this technology fee, seed producers or retailers charged growers between $19 and $22 for each bag of seed. Pet. App. 3a-4a.

The restrictions on planting saved, second-generation seed are necessary in light of the self-replicating characteristics of the technology and are designed to allow widespread use of the patented technology while protecting Monsanto's patent rights and investment in developing its unique biotechnology. Every Roundup Ready® soybean contains the genetic modifications covered by Monsanto's patents, and soybean plants grown from Roundup Ready® seed in turn produce new Roundup Ready® soybeans containing these same genetic modifications. Pet. App. 6a-7a. Moreover, soybeans replicate at an exponential rate, as a single Roundup Ready® soybean seed typically produces a

plant that yields 25 to 50 genetically identical soybeans that can either be sold as a commodity or used as seeds. *See id.* at 126a. As a result, growers are left at the end of a growing season with an abundance of soybeans to be sold as a commodity, while still being able to save enough seed to plant in the following year, or to sell to someone else for use as seed. Thus, absent the license restrictions prohibiting growers from saving soybeans containing this patented technology to plant as seed in a subsequent season or to sell as seed, the patent owner's ability to recoup its costs of developing that technology and to protect or exploit its patent rights would be lost as soon as the first generation of each commercial Roundup Ready® product was introduced into the market.

2. In 1998, petitioner McFarling purchased Roundup Ready® soybean seed, paid the required technology fee, and signed a Technology Agreement promising not to plant in subsequent seasons the genetically identical progeny produced by the purchased seeds; *i.e.*, he promised not to save and use as seed (or to sell to others to use as seed) the genetically identical, second-generation seeds. Pet. App. 4a. Contrary to that Agreement, however, McFarling saved seeds from his 1998 crop, and used those saved seeds to plant his fields during the 1999 growing season. He repeated that unauthorized activity in the following growing season. *Id.* at 3a-4a.

3a. After learning that McFarling had saved and planted second-generation seeds, Monsanto brought suit against him, alleging infringement of both the '435 and '605 patents and breach of the Technology Agreement. Monsanto also sought a preliminary injunction against further infringement. McFarling raised various defenses and counterclaims, including patent misuse, the patent-exhaustion (or first-sale) doctrine, and antitrust violations. The district court entered a preliminary injunction prohibiting McFarling from obtaining or planting Roundup Ready® soybean seed. Pet. App. 4a.

b. On McFarling's first appeal, the court of appeals affirmed the entry of the preliminary injunction. Pet. App.

57a-88a (*"McFarling I"*). In so ruling, the court of appeals concluded that McFarling was not likely to succeed on the merits of his counterclaims and defenses. Regarding McFarling's defense of patent exhaustion in particular, the court of appeals explained that that doctrine was not implicated because "the new seeds grown from the original batch had never been sold." *Id.* at 70a. Since the new seeds "were not sold by the patentee they entailed no principle of patent exhaustion." *Id.* at 71a. This Court denied McFarling's petition for certiorari, which raised issues unrelated to those raised in the present petition. 537 U.S. 1232 (2003).

4a. The district court then granted summary judgment as to liability to Monsanto on its claims for breach of contract and infringement of the '605 patent.[2] The district court also granted summary judgment to Monsanto on all of McFarling's counterclaims and defenses, including patent misuse; McFarling abandoned patent exhaustion as a defense after the court of appeals' affirmance of the preliminary injunction. Pet. App. 90a-93a. With liability resolved, the parties stipulated to an amount of liquidated damages for breach of the license agreement. The district court entered final judgment under Rule 54(b) of the Federal Rules of Civil Procedure on Monsanto's breach of contract claim and all of McFarling's counterclaims and defenses (but not on the claim of infringement of the '605 patent because the amount of damages for the infringement claim had not been resolved by trial or stipulation). *Id.* at 5a.

b. On McFarling's second appeal, the court of appeals affirmed the grant of summary judgment to Monsanto on all of McFarling's defenses and counterclaims, but vacated the liquidated damages award under Missouri contract law. Pet. App. 105a-137a (*"McFarling II"*). With respect to McFarling's patent-misuse defense, the court of appeals concluded that the prohibition on planting saved, second-generation

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[2] Monsanto did not seek summary judgment on its claim of infringement of the '435 patent. Pet. App. 4a.

seed did not broaden the scope of the patent because Monsanto does "not impose a restriction on the use of the product purchased under license but rather imposes a restriction on the use of the goods made by the licensed product." *Id.* at 116a. Although the court of appeals noted that its case law had not previously addressed the patent-misuse doctrine in the context of the "unique set of facts" presented by self-replicating technology, the court reasoned that, because the second-generation seeds are identical copies of the patented article, restrictions on their use or sale do not improperly extend Monsanto's rights under the patent. *Id.*

c. McFarling then sought this Court's review of the question whether Monsanto could, under the patent laws, "lawfully prohibit farmers from saving and replanting seed" containing its patented biotechnology. Cert. Pet., *McFarling II*, 2004 WL 1535852. While that petition for certiorari was pending, Monsanto, back in the district court, dismissed its contract claim and its infringement claim under the '435 patent, electing to pursue its damages claim only under the '605 patent. McFarling argued in this Court that Monsanto's dismissal of its breach of contract claim and its infringement claim under the '435 patent undermined the basis for the court of appeals' decision in *McFarling II*. McFarling further argued that, without a contractual provision prohibiting farmers from planting saved, second-generation seeds, Monsanto could not enforce such a restriction under the patent laws. Cert. Pet. Supp. Br., *McFarling II*, 2005 WL 1248454. This Court denied certiorari, 545 U.S. 1139 (2005).

5a. The parties then proceeded to a damages trial on the '605 patent (on which Monsanto had already secured summary judgment as to liability). Pet. App. 5a. The district court denied McFarling's pre-trial motion to exclude the testimony of Monsanto's damages expert under *Daubert* v. *Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589 (1993). At trial, Monsanto's damages expert explained the benefits to McFarling of using Roundup Ready® soybean seeds as well as the benefits of the licensing program, and offered the opinion that a reasonable royalty for McFarling's

unauthorized use of the invention of the '605 patent would be $80.65 per bag of saved seed in 1999 and $73.20 per bag of saved seed in 2000. Pet. App. 13a-14a. The jury returned a damages verdict reflecting a royalty of $40 per bag of saved seed in both 1999 and 2000.

After trial, McFarling renewed his motion for judgment as a matter of law, arguing that Monsanto was entitled to no damages because Monsanto's decision not to pursue its infringement claim under the '435 patent undercut the basis for the Federal Circuit's previous rejection of McFarling's counterclaims and defenses. Pet. App. 5a. Alternatively, he argued that the infringement damages should be limited to the $6.50 per-bag technology fee. *Id.* at 6a. The district court denied the motions, upheld the jury's damages award, and permanently enjoined McFarling from future unauthorized use or sale of the technology covered by the '605 patent. *Id.*

b. On McFarling's third appeal, the court of appeals affirmed the jury's damages verdict and denied McFarling's invitation to reconsider his previously rejected defenses and counterclaims. Pet. App. 1a-17a ("*McFarling III*"). The court of appeals rejected McFarling's argument that Monsanto's dismissal of its breach of contract claim and of the '435 patent infringement claim undermined the decision in *McFarling II*. The court of appeals explained that its reasoning in *McFarling II* applied equally to the '605 patent as to the '435 patent because every Roundup Ready® soybean contains DNA molecules claimed by both patents. Moreover, the court of appeals reiterated that Monsanto's restrictions on planting saved seed did not constitute patent misuse because, given the self-replicating nature of the technology, "the prohibition against use of second-generation seeds was simply a prohibition against unlicensed use of the patented invention." *Id.* at 6a-7a.[3]

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[3] The court of appeals also adhered to its previous rejection of McFarling's antitrust claim, noting that it was just a repackaged version of the rejected patent-misuse claim. *Id.* at 8a.

As to the damages award, the court of appeals rejected McFarling's argument that any damages award should be capped at $6.50 per 50-pound bag of Roundup Ready® soybean seed, the amount of the technology fee charged by Monsanto for authorized use of the patented technology. The court explained that $6.50 could not be an "established royalty" for McFarling's conduct because that fee was a royalty only for the use of the technology for a single commercial crop in a single growing season, whereas Monsanto had consistently *refused* to license growers to engage in the infringing conduct that McFarling committed—saving and using as seed the genetically identical progeny of the purchased seeds in subsequent growing seasons. Pet. App. 12a.

As to whether the jury's damage award reflected a "reasonable royalty," the court noted that it customarily gave broad deference to the jury's conclusions when reviewing such damage awards. Pet. App. 14a. In this case, trial testimony showed that the use of Roundup Ready® soybean seeds increased the farmer's yield and resulted in significant cost savings for weed control. Even using the lowest estimates for such benefits, the evidence showed that a grower would save between $31 and $61 per acre (*i.e.*, per each bag of seed, under an approximate planting rate of one bag per acre) using seeds containing Monsanto's patented technology as opposed to conventional seeds. It was therefore reasonable, the court of appeals explained, for the jury to conclude that a purchaser would pay $40 per bag of seed for the patented technology when applying the "hypothetical negotiation" methodology for establishing a reasonable royalty under 35 U.S.C. § 284. *Id.* at 14a-15a; *see, e.g., Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *aff'd*, 446 F.2d 295 (2d Cir. 1971) (setting forth factors for hypothetical royalty negotiations).[4] Finally,

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[4] Petitioner does not challenge nor ask this Court to review the Federal Circuit's well-established "hypothetical negotiation" methodology for calculating a reasonable royalty. Petitioner argues only that the reasonable royalty calculation was not necessary here.

the court of appeals rejected McFarling's *Daubert* challenge to Monsanto's damages expert, and affirmed the district court's grant of injunctive relief. *Id.* at 15a-16a.

ARGUMENT

Petitioner takes issue with two aspects of the decision below, neither of which warrants review. First, he objects to the jury's damages award and the court of appeals' refusal to overturn it. That issue does not merit this Court's review. The court of appeals applied settled law to uphold the jury's broad discretion in arriving at a reasonable royalty for McFarling's infringement of Monsanto's patent. Second, petitioner once again objects to the court of appeals' refusal to allow him to make whatever use he chooses of second-generation soybean seeds that are genetically identical to the genetically modified first-generation seeds that he purchased—even though, when he obtained a license to use Monsanto's patented technology, he expressly agreed not to use the second-generation seed for planting. Petitioner sought certiorari on essentially the same question in *McFarling II*, and this Court denied review. In any event, the court of appeals correctly concluded that Monsanto did not misuse its patent by refusing to allow petitioner to make whatever use he desired of the genetically identical progeny of the purchased seed, and it also correctly held, in *McFarling I*, that the patent-exhaustion or first-sale doctrine has no application in the context of genetically identical second-generation seeds that McFarling never purchased. This Court should therefore deny certiorari.

I. THE COURT OF APPEALS CORRECTLY APPLIED SETTLED PATENT DAMAGES PRINCIPLES TO CONCLUDE THAT THE JURY'S DAMAGES VERDICT WAS SUPPORTED BY THE EVIDENCE AND WITHIN THE FACT-FINDER'S REASONABLE DISCRETION

Petitioner identifies two supposed errors in the court of appeals' decision on damages: (1) that the court of appeals' decision contravenes the rule that an established royalty precludes any need to calculate a reasonable royalty under 35 U.S.C. § 284 using the well-established "hypothetical negotiation" methodology; and (2) that the court of appeals'

"alternative" basis for affirming the district court's decision was flawed. Pet. 9-11. Petitioner mischaracterizes the appeals court's decision on both counts—at bottom, petitioner simply objects to the result that the jury reached and that the district court and court of appeals upheld by applying settled law to the facts of this case.

A. The Court Of Appeals Correctly Ruled That There Was No Established Royalty In This Case

The core of petitioner's challenge to the damages award in this case is that the $6.50-per-bag technology fee payable to Monsanto when a grower purchases a bag of Roundup Ready® soybean seeds is an "established royalty" that delimits the amount that petitioner should have been required to pay in infringement damages. The court of appeals correctly concluded, however, that there was no established royalty for the infringing use that petitioner made of the patented technology.

The court of appeals fully recognized that, when available, an established royalty for the use that the infringer made of the patent is the best measure of patent damages. *See* Pet. App. 9a-10a. That approach to patent damages presupposes, however, that there is an established royalty for the particular use of the patented invention that was made by the infringer. A license for one use of a patented invention is not necessarily the "established" royalty for a license of different scope. In this case, the court of appeals correctly determined there was no established royalty for the use that petitioner made of Monsanto's patented invention—planting saved, second-generation seeds—because Monsanto had never licensed that right to any grower. *Id.* at 12a-13a. That analysis is entirely consistent with the cases cited by petitioner. *See Hanson* v. *Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 (Fed. Cir. 1983) (holding prior license did not constitute established royalty where it encompassed payments in addition to royalty); *Nickson Indus., Inc.* v. *Rol Mfg. Co.*, 847 F.2d 795 (Fed. Cir. 1988) (affirming rate for prior licenses to engage in identical activity to that in which infringer engaged constituted established royalty rate).

In *Monsanto Co.* v. *Ralph*, 382 F.3d 1374 (Fed. Cir. 2004), where the court of appeals considered and rejected the very same claim raised by petitioner here, the court explained that a technology fee for a single, limited use of Monsanto's patented invention is not an "established royalty" for the grower's appropriation to himself of far greater rights to use that invention:

> Monsanto has chosen, as is its prerogative, to permit farmers to plant a commercial crop of the patented seeds in a single season in exchange for payment of the Technology Fee and a promise, manifested through the Technology Agreement, not to save those seeds that are harvested at the end of the growing season for replanting, production, sale, or transfer to others. The Technology Fee is a royalty, to be sure, but it is a royalty for only a narrow, contractually agreed-upon, use of the seed. It is undisputed in the record that Monsanto has not granted licenses to anyone to plant, produce, or transfer saved seed. The Technology Fee is therefore not an established royalty for planting or transferring saved seed, the uses that Ralph made of the patented invention.

Id. at 1383-1384. In the decision below, the court of appeals reached the same conclusion:

> Because [petitioner's argument that damages should be limited to $6.50 per bag] does not take into account the added obligation imposed on all authorized licensees under the Technology Agreement—to purchase seed from an authorized seed store—the trial court was correct to refuse to treat the $6.50 Technology Fee as the established royalty for a license comparable to the infringing conduct.

Pet. App. 11a (*citing Ralph*, 382 F.3d at 1383-1384).

Nothing in the court of appeals' decision is inconsistent with any of the cases petitioner cites in his brief. For example, petitioner suggests that the decision below is inconsistent with the standard for an established royalty articulated

in *Rude* v. *Westcott*, 130 U.S. 152 (1889). The court of appeals correctly rejected this argument. *Rude* states that, "where there has been such a number of sales by a patentee *of licenses to make, use, and sell* his patents as to establish a regular price for a license, that price may be taken as a measure of damages against infringers." *Id.* at 185 (emphasis added). The court of appeals correctly concluded, however, that Monsanto had never granted growers a license to use second-generation Roundup Ready® seed to plant in the following growing season, and that the narrower licenses Monsanto granted to growers who lawfully purchased licensed seed and signed the Technology Agreement were not of the same scope as the rights petitioner appropriated to himself in infringing Monsanto's patent. Pet. App. 12a.

Petitioner argues that the court of appeals should have capped damages at the level of the $6.50 per-bag technology fee "because [petitioner] knew that he could walk into any authorized seed store and walk out with a bag of Roundup Ready® seed for as little as $25.50, of which $6.50 would go to Monsanto. There is no reason to 'hypothesize' that he would have paid Monsanto a dime more." Pet. 14. Petitioner's argument misapprehends how a reasonable royalty analysis works. Had petitioner been content to use Monsanto's patented technology according to the terms set forth in the Technology Agreement, he could have done so for as little as $25.50 per bag of Roundup Ready® seed, of which $6.50 would have represented a royalty for the authorized use of Monsanto's technology. Petitioner was *not* satisfied, however, with accepting the license granted by Monsanto and instead appropriated to himself a different and broader right—the right to save and plant second-generation seeds without agreeing to the terms of the Technology Agreement, including the limitations that it places on permissible use of Monsanto's patented invention. Having done so, he cannot claim the benefit of an established royalty for use of an invention far narrower than the scope of his infringement.

Given that there was no established royalty for McFarling's infringing use of Monsanto's patented invention, the

proper approach—and that approved by both courts below—was to arrive at a hypothetical reasonable royalty that would best approximate the amount that willing parties would arrive at in a negotiation for the use that the infringer actually made of the invention. *See Hanson*, 718 F.2d at 1081. There are numerous factors that may be taken into consideration in this fact-specific determination, but one of the most important is the quantification of the benefits of the patented technology over other available options. *See Suffolk Co.* v. *Hayden*, 70 U.S. 315, 320 (1865); *see also Hanson*, 718 F.2d at 1080-1081. This is precisely the analysis presented to the jury and undertaken by the district court and the court of appeals below. Based on the testimony of Monsanto's experts regarding the advantages and cost savings of using Roundup Ready® technology over conventional soybean seed and weed control alternatives, the court of appeals concluded that the jury's royalty of $40 per bag of seed saved from the prior year's crop was supported by the evidence and not grossly excessive. Pet. App. 13a-15a. The court of appeals' conclusion affirming this particular jury damages award raises no issue worthy of this Court's review.

B. The Court Of Appeals Did Not Rely On Any So-Called "Alternative Analysis" As The Basis For Affirmance

Petitioner also argues that the court of appeals incorrectly employed an "alternative analysis" that effectively upheld a damages award designed to compensate seed producers, and not just Monsanto, for petitioner's use of Monsanto's patented invention. Contrary to petitioner's suggestion, the court of appeals did not rely on any so-called "alternative analysis" as the basis for its refusal to overturn the jury's damages verdict. The court of appeals did comment that, even for the narrow license granted to growers under the Technology Agreement, $6.50 was not the entire royalty paid in the marketplace for limited use of Monsanto's patent. *See* Pet. App. 11a. The court of appeals made clear, however, that, whatever the proper calculation of the royalty paid by farmers who *abided* by the Technology Agreement,

that royalty was not the correct royalty for the infringing use that *petitioner* made of Monsanto's technology, because there was no established royalty for that use. *See id.* at 11a-12a. Thus, the court of appeals' discussion of the proper way to view the amount of the royalty paid by farmers who purchase seed from authorized Monsanto seed sellers and abide by the license terms provides no basis for review of the decision below.

Moreover, even if the supposed "alternative analysis" could properly be reviewed by this Court, there was no error in the court of appeals' discussion of settled patent-damages law in this regard. In the absence of an established royalty, the calculation of a reasonable royalty requires the fact-finder to determine "a hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee." *Trell* v. *Marlee Elecs. Corp.*, 912 F.2d 1443, 1445 (Fed. Cir. 1990). In the real world, growers purchase Roundup Ready® seed from a licensed seed company, but in a hypothetical negotiation, the negotiation would take place directly between Monsanto and the grower seeking a license, without the seed company being present. Thus, the relevant issue is determining the amount that Monsanto would accept from a grower who wanted to engage in petitioner's infringing activity—planting seed he saved from the prior year's crop without any agreement not to continue to save and plant future generations of that seed—and the amount that the infringer would be willing to pay to obtain rights of that magnitude under the patent. As patent owner, Monsanto's damages are properly the entire amount of what the infringer would be willing to pay and what Monsanto would be willing to accept because that is the amount of money that Monsanto would have obtained in the hypothetical world where Monsanto was willing to license growers to save and plant second-generation, patented seed. *See, e.g.*, *Interactive Pictures Corp.* v. *Infinite Pictures, Inc.*, 274 F.3d 1371, 1384 (Fed. Cir. 2001) ("We have also endorsed the conceptual framework of a hypothetical negotiation between the patentee and the infringer as a means for determining a reasonable royalty." (citing *Rite*

Hite Corp. v. *Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc))).

Petitioner also argues that the court of appeals improperly relied on a deterrence rationale for its ruling. There is no substance to this argument. The court of appeals did comment that, were petitioner's damages theory adopted, it would illogically result in a situation in which infringement permitted the infringer to pay far less than the market royalty for a more limited use of the patented technology. *See* Pet. App. 11a-12a. This statement was not an expression of a "deterrence rationale," but rather a straightforward observation that, where the marketplace supports a price of more than $25 per bag of seed even for the narrow license (to grow a single commercial crop) granted under the Technology Agreement, it would be nonsensical to conclude that the amount Monsanto would rationally accept for the *broader* license to save and plant second-generation seeds would have been only $6.50.

Finally, petitioner's argument that "*McFarling III* therefore takes the law of patent damages back to 1946" (Pet. 22) is without merit. Before 1946, the patent damages statute allowed to a patent holder a double recovery of both its own damages and the infringer's profits. *See* R.S. 4921 (1945). In 1946, Congress enacted a statute nearly identical to the current version of 35 U.S.C. § 284, which limits recovery to the patentee's "damages," which are defined in the statute as "in any event not less than a reasonable royalty." Here, the court of appeals determined that there was no established royalty for a license to engage in the infringing conduct, and that a reasonable royalty for such a license could be $40 per bag of seed saved for planting in the next growing season. Pet. App. 11a, 15a. The court of appeals noted that the marketplace supported a royalty greater than $6.50 for even a more limited right to plant seeds purchased from authorized dealers in a single season (*see id.* at 11a-12a), but this does not suggest that the court intended to allow a recovery of the infringer's profits. Indeed, in this case there was no argument to the jury about how much money

petitioner actually made from saving and planting Monsanto's patented seed in 1998 and 1999. In short, the court of appeals' damages analysis involved the straightforward application of settled damages principles and does not merit this Court's review.

II. THE COURT OF APPEALS CORRECTLY CONCLUDED THAT THE RESTRICTION AGAINST PLANTING SECOND-GENERATION ROUNDUP READY® SEED DID NOT IMPROPERLY EXTEND MONSANTO'S PATENT RIGHTS

Petitioner contends that the court of appeals' decision improperly allows Monsanto to extend its patent rights in violation of the patent-exhaustion (or first-sale) doctrine. The question raised by petitioner in this regard does not warrant this Court's review for several reasons. First, the issue is not properly before this Court because petitioner failed to preserve it below. Second, this Court previously denied review (in *McFarling II*) on essentially the same issue, and the issue is no more worthy of review now. In any event, the court of appeals' decision below was clearly correct, given the context of self-replicating technology at issue in this case.

A. The Patent-Exhaustion Issue Is Not Properly Before This Court, But Even If It Were This Court Has Already Denied Review On Essentially The Same Issue

This Court should not grant review of petitioner's patent-exhaustion argument because petitioner failed properly to preserve that issue below. *See FW/PBS, Inc.* v. *City of Dallas*, 493 U.S. 215, 224 (1990) ("It is this Court's practice to decline to review those issues neither pressed nor passed upon below."). After the court of appeals concluded at the preliminary injunction stage (*McFarling I*) that petitioner was unlikely to prevail on the merits of his patent-exhaustion defense, petitioner abandoned that defense. First, although petitioner filed a petition for certiorari in *McFarling I*, he did not raise the patent-exhaustion issue in that petition. Second, petitioner did not raise the issue of patent exhaustion on his appeal (in *McFarling II*) from the

district court's grant of summary judgment on liability to Monsanto, even though that would have been an appropriate occasion to raise that issue to the court of appeals (had the issue been properly preserved in the district court, which it was not). Third, petitioner failed to raise the patent-exhaustion issue in his principal brief to the court of appeals in *McFarling III*. Although petitioner belatedly tried to revive his patent-exhaustion claim in his reply brief in *McFarling III*, the court of appeals did not pass on it, evidently deeming the argument waived in light of his failure to preserve it in his opening brief. *See United States* v. *Ford Motor Co.*, 463 F.3d 1267 (Fed. Cir. 2006) (arguments raised for the first time in reply brief are waived).

Even if the issue had been preserved, however, it does not merit this Court's review, and indeed, this Court already denied review on a closely related issue, on the same facts, in *McFarling II*. Following the Federal Circuit's decision in *McFarling II*, petitioner sought this Court's review on the question whether "a patent holder [may] lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of the patented technology." Cert. Pet., *McFarling II*, 2004 WL 1535852. When Monsanto dismissed its breach of contract claim, petitioner filed a supplemental brief in support of his petition for certiorari, arguing that allowing the Federal Circuit's decision to stand in those circumstances would improperly "expand[] Monsanto's patent grant" because it would allow Monsanto to restrict "what purchasers of its seed do with subsequent seed generations." Cert. Pet. Supp. Br., *McFarling II*, 2005 WL 1248454, at *6.

This Court requested the views of the Solicitor General, who recommended denial of certiorari. U.S. Amicus Br., *McFarling II* (No. 04-31). The Solicitor General explained that Monsanto's patent covered both second-generation and first-generation Roundup Ready® seeds, and that Monsanto's refusal to license McFarling to plant second-generation seed was not patent misuse, but rather constituted a legitimate exercise of its right to exclude under the patent laws. *Id.* at 14. This Court then denied certiorari.

Although the question of patent misuse is doctrinally distinct from that of patent exhaustion, on the facts of this case they are closely related. Indeed, in relying on the two doctrines, petitioner has made essentially the same argument: that Monsanto surrenders any legitimate patent rights it has in second-generation soybean seed when the first generation of seed is sold. As the Federal Circuit concluded in *McFarling II*, and as the Solicitor General agreed, that argument is incorrect; the patent reads on the second generation of seed no less than on the first generation of seed, and Monsanto does not improperly seek to extend its patent rights in the second generation merely because the first generation has been sold. Accordingly, although petitioner has now repackaged his arguments as a patent-exhaustion, rather than patent-misuse, claim, the arguments are no more worthy of review now than they were in *McFarling II*.

B. The Patent-Exhaustion Doctrine Has No Application In This Case

In any event, the decision below does not merit review because the patent-exhaustion doctrine has no applicability in the context of this case, which involves self-reproducing technology. As the court of appeals explained in *McFarling I*, the "first sale" of the *first* generation of self-replicating products such as seeds does not exhaust patent rights in the *second* generation of those products. In the circumstances of this case, "[t]he 'first sale' doctrine of exhaustion of the patent right is not implicated, as the new seeds grown from the original batch had never been sold." Pet. App. 70a.

To be sure, in this context, the ordinary use of the article embodying the patented technology (planting the soybean seeds) results in a crop of soybeans, and that second generation of soybeans *can* be used as seeds to plant a third generation of soybeans. But it is simply wrong to say, as petitioner does, that the *only* reasonable use of the patented invention is to plant those second-generation seeds and thus produce a third generation. Pet. 23-25. To the contrary, a reasonable use of the patented invention, particularly for a

commercial soybean grower like petitioner, is to produce a crop of soybeans to be sold as a commodity, which petitioner was free to do under his license from Monsanto—the terms of which he chose to disregard. Moreover, the fact that patented technology can replicate itself does not—and cannot—give the purchaser the right to use replicated copies of the technology in any way the purchaser chooses. As the court of appeals noted in another "saved seed" case against a different defendant, "[a]pplying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder." *Monsanto Co.* v. *Scruggs*, 459 F.3d 1328, 1335-1336 (Fed. Cir. 2006), *cert. denied*, 127 S. Ct. 2062 (2007).

Because the patent-exhaustion doctrine has no application in this context, there is also no reason to hold this case for this Court's disposition of *Quanta Computer, Inc.* v. *LG Electronics, Inc.* (No. 06-937) (certiorari granted Sept. 25, 2007). First, in this case, unlike in *Quanta*, the purchaser is not precluded from making the only reasonable use of the patented article. As noted, farmers purchasing Roundup Ready® soybean seed are licensed to grow a commercial crop of soybeans for sale as a commodity.

Second, *Quanta* does not involve self-replicating technology, and no issue about the application of the exhaustion doctrine to such technology is before the Court in *Quanta*. Indeed, the *Quanta* petitioners themselves have noted that that case does not raise any issues pertinent to self-replicating technologies. *See* Pet. Br. 42-43 n.13, *Quanta* (No. 06-937) (noting that the issue of self-replicating seeds "obviously is not presented" in *Quanta*). The Solicitor General, in an amicus brief in *Quanta*, also explained that *Quanta* does not bear on the issues in this case:

> This Court has never suggested that the patent-exhaustion doctrine applies to the *products* of a patented item that is capable of reproducing itself in the hands of the purchaser—*e.g.*, newly-grown seeds that are identical to, and grown from, a patented genetically-modified seed that was purchased

> from the patentee or an authorized licensee. See U.S. Amicus Br. at 14 & n.8, *McFarling* v. *Monsanto Co.*, 545 U.S. 1139 (2005) (No. 04-31). This case presents no opportunity to address that question.

U.S. Amicus Br. 15 n.6, *Quanta* (No. 06-937). Because the Court's disposition of *Quanta* will not affect the outcome of this case, there is no need for the Court to hold this case for its decision in *Quanta*.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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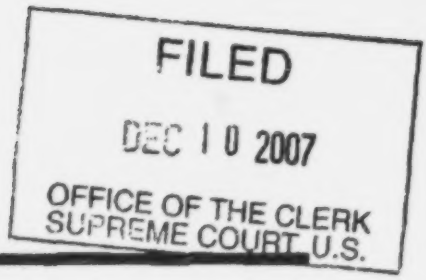

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No. 07-241

IN THE

Supreme Court of the United States

HOMAN MCFARLING,
Petitioner,

v.

MONSANTO COMPANY,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR THE PETITIONER

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REPLY BRIEF FOR THE PETITIONER

Monsanto bases its opposition to certiorari on two mistakes. First, Monsanto claims that McFarling somehow used Monsanto's seeds in a "broader" way than any other farmer and therefore should be required to pay Monsanto $40 per bag of seeds—even though, but for the infringement, he would have paid Monsanto only $6.50 per bag. Monsanto is wrong. Both the district court and the Federal Circuit noted that McFarling neither sold nor modified the seeds he saved. Rather, he planted a known, limited number of those seeds on his own land, and stopped when ordered to do so. As a result, Monsanto's loss is precisely quantifiable—and is less than one-sixth of what McFarling has been ordered to pay. The Federal Circuit justified this enormous windfall to Monsanto by including in the award two things that have never been part of modern patent-damages law—money that McFarling would have paid to third parties; and the value that McFarling theoretically should have placed on having access to the seeds. In doing so, the Federal Circuit remade the law of patent damages in radical and dangerous ways.

Second, Monsanto claims that McFarling cannot raise a patent-exhaustion defense because the use that he made of the seeds produces new seeds as the planted ones sprout and grow. Monsanto's argument misunderstands the exhaustion doctrine, which, under *United States v. Univis Lens* extends to defendants who buy an unpatented product and then infringe the patent by making the ordinary and cus-

tomary use of that product. The Federal Circuit's decision would permit Monsanto to sell seeds to farmers and then sue them for planting those seeds, regardless what they intended to do with the plants. No reasonable understanding of the exhaustion doctrine would allow Monsanto to reach that far. This Court will rule on the exhaustion doctrine in 2008 in *Quanta v. LG Electronics*. It should not allow this extreme result to slip through the cracks in the meantime.

I. Monsanto's windfall in this case remakes the law of patent damages.

The Federal Circuit held that an infringer is liable to the patent owner not only for the royalties that he agreed to pay the patent owner (the $6.50-per-bag Technology Fee), but also for fees that he agreed to pay to third-party distributors (the Seed Company Fee)—even though the patent owner had no standing to seek those fees, and even though the fees included the distributors' expenses and therefore did not represent ***anyone's*** lost profits. Having thus granted the patent owner—Monsanto—a huge windfall by setting a grossly inflated "floor" of $22.50 to $28.50 a bag under its damages analysis, the Federal Circuit then went even further, upholding a jury award of $40 per bag by ignoring both the established royalty and the established law of damages.

Approving this windfall for patent owners required the Federal Circuit to turn its back on the settled rule that an established royalty precludes the use of a higher "hypothetical" royalty, and to override Congress's 1946 decision to eliminate equitable

disgorgement as a measure of patent damages. These alterations to the fabric of patent-damages law warrant this Court's review.

1. To justify the Federal Circuit's departure from the established royalty, Monsanto theorizes that McFarling was doing something broader and more harmful to Monsanto's rights than simply planting two seasons' worth of seeds that he could have purchased from any Roundup Ready seed distributor at a fixed, established price. This premise allows Monsanto to argue that "no established royalty" existed here, because McFarling would have had to pay Monsanto more than $25.50 to $28.50 per bag to obtain a license to engage in these "broader" activities—whatever they were.

As a threshold matter, this argument gives the Federal Circuit's opinion a major facelift to make it seem less controversial. Contrary to Monsanto's assertions, the Federal Circuit never said that there was "no" established royalty in this case. Had it said that, its resort to a hypothetical royalty might have appeared somewhat less objectionable. Rather, the Federal Circuit said that it would be "improper" to treat the Technology Fee—even when *augmented* by the much larger Seed Company fee—as being the "reasonable royalty." App 12a. Thus, this case squarely presents the issue whether an established royalty may be disregarded in favor of a higher, hypothetical one. Monsanto's insistence that the Federal Circuit found "no" established royalty is an attempt to obscure the full doctrinal import of *McFarling III*.

Monsanto asserts that McFarling "cannot claim the benefit of an established royalty for use of an invention far narrower than the scope of his infringement." MB at 12. But Monsanto never adequately explains why the unauthorized use that McFarling made of the patented invention was any "broader" than what Monsanto routinely allowed farmers to do under license.[1] McFarling planted second-generation seeds for two seasons only on his own land. McFarling did *not* sell or give away seed to other farmers, and therefore did not undercut other sales that Monsanto might have made. Nor did he keep replanting saved seed on his own land in perpetuity. Monsanto obtained an injunction against that conduct, and McFarling complied with it. As a result, we know exactly how many seeds McFarling

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[1] Indeed, that assertion collides head-on with *McFarling III*'s patent-misuse holding. In rejecting McFarling's patent-misuse defense, the Federal Circuit observed that "'the licensed and patented product (the first generation seeds) and the good made by the licensed product (the second-generation seeds) are nearly identical copies.' Thus, 'given that the . . . patent reads on the first-generation seeds, it also reads on the second-generation seeds.'" App. 6a-7a (citation omitted). The Federal Circuit therefore held that there was no patent misuse because "the prohibition against use of second-generation seeds was simply a prohibition against unlicensed use of the patented invention." App. 6a. In other words, the Federal Circuit rejected McFarling's patent-misuse defense based on the premise that there is *no significant difference* between planting a first-generation seed and planting a second-generation seed. Yet Monsanto's "broader use" rationale for ignoring the established royalty turns on *repudiating* that premise by insisting that there *is* something fundamentally different—or "broader"—about planting second-generation seeds. Monsanto can't have it both ways.

replanted, and exactly how much he would have paid Monsanto for those seeds had he purchased them instead of replanting them.

Had McFarling not infringed, he would have purchased seeds from Monsanto for the two seasons in which he replanted them. Monsanto would have made additional profits on the sale of those seeds. But those lost profits are what *every* farmer pays Monsanto—$6.50 per bag, not $40 per bag.

Monsanto's "broader use" rationale for ignoring the established royalty violates the compensatory purpose of the patent-damages statute by permitting the patent owner to recover damages to "compensate" it for money that it would never have earned and that hence represents a pure economic windfall. To accept this argument would be to open a dangerous new loophole that patent owners could use to argue that they should be compensated for losses to third parties and allowed to collect the defendant's profits from a use. That has never been the law.

Monsanto's "broader use" rationale not only fails on its merits, but also bears no relationship to what the Federal Circuit actually said in *McFarling III*. *McFarling III* does not articulate the "broader use" rationale. Unable to point to any "broader use" language in *McFarling III* itself, Monsanto falls back on a different case that is cited in passing in *McFarling III*—namely, *Monsanto Co. v. Ralph*, 382 F.3d 1374 (Fed. Cir. 2004). *See* Opp. 11; App. 11a. But *Ralph* is clearly distinguishable, as the infringing use in that case really *was* "broader" than any use authorized by Monsanto's existing licenses. In *Ralph*, the

defendant sold or gave second-generation Roundup Ready cottonseed to at least three other farmers, creating a situation in which Monsanto soon would have lost control over the patented technology. *See id.* at 1378. He then compounded that misconduct by lying about it and blocking efforts to discover it, making it impossible to determine exactly how much seed he had planted or sold. *See id.* at 1377-82.

This case, by contrast, involves an infringing use practically identical to that for which Monsanto charged an established royalty. Yet the Federal Circuit abandoned the sensible rule that an established royalty precludes a hypothetical one and instead adopted a rule that awards super-compensatory damages. Perhaps this reflects a policy judgment by the Federal Circuit that massive economic deterrence is the only way to protect those who own patents on self-replicating technologies. But Congress has not authorized the courts to award such damages, and neither does this Court's precedent. A policy change of this magnitude deserves careful legislative study, not the back-door adoption of a fundamentally new theory of damages.

2. Monsanto also urges this Court to ignore everything that the Federal Circuit said about the "reasonable royalty" being *no less than* the sum of the Technology Fee and the Seed Company Fee. *See* App. 10a-12a. These words were mere *dicta*, Monsanto asserts, because the court ultimately concluded that there was "no established royalty" for McFarling's unauthorized use of second-generation seeds and so the court must have based its affir-

mance of the damages award *entirely* on the higher, "hypothetical" royalty. Opp. 14.

Monsanto has every reason to want to sweep this part of the Federal Circuit's analysis under the carpet. After all, it was in this part of its opinion that the Federal Circuit indefensibly held that patent damages may include (1) losses sustained by third-party distributors of the patented goods, despite the patent owner's obvious lack of standing (*see* App. 11a-12a), and (2) deterrence-based disgorgement of infringer benefits, despite Congress's elimination of that remedy in 1946. *See* App. 12a (including Seed Company Fee in "reasonable royalty" to prevent "windfall for infringers").[2] But Monsanto's argument for ignoring more than half of the Federal Circuit's damages analysis fails, for two reasons.

First, the "dicta" argument depends on erroneously characterizing the opinion as having held that there was "no established royalty" for McFarling's infringing activity. As explained above, that is not what the opinion says.

Second, the Federal Circuit's extensive discussion on this point was not mere *dicta*, because it set the *floor* for the entire damages analysis. *See* App 12a (stating that it would be "improper" to hold that Monsanto's reasonable royalty damages are "*limited to*" $25.50 to $28.50 per bag) (emphasis added).

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[2] The "disgorgement" rationale also appears, at least implicitly, in the Court's discussion of the "hypothetical" royalty. *See* App. 13a-15a (discussing benefits of technology to infringer).

Even assuming that the discussion in question was mere *dicta*, however, these lengthy and deliberate teachings from the Federal Circuit are likely to influence the conduct of patent trials nationwide. When those teachings are coupled with a holding authorizing lower courts to disregard established royalties in favor of inflated hypothetical ones that grant huge windfalls to patent owners, the case for Supreme Court review is clear.

Accordingly, this Court should grant McFarling's petition for a writ of certiorari on the damages issue.

II. Monsanto exhausted its patent rights with its sale of seeds to McFarling.

1. Monsanto urges this Court to lump the exhaustion issues that McFarling raises here with those raised in his prior petition to this Court. But the issues are quite distinct, because Monsanto no longer contends that McFarling violated any license. Monsanto's claim during the 2004 appeal sounded in contract, but Monsanto now asserts that its naked patent rights permit it to restrict the post-sale use of its patented good. The question is fundamentally different: not whether *contract* law enables a patentee to impose post-sale restrictions on purchasers, but whether *patent* law does.

Under Monsanto's theory, McFarling's liability cannot be premised on his *saving* of seeds, as the patent laws grant no exclusive right of possession. Nor may liability be premised on McFarling's *sale* of seeds, as there is no allegation of sale in this case. Rather, Monsanto's position is that McFarling in-

fringed the patent by *planting* the seeds, since he did so knowing that seeds planted in the ground would grow into mature plants and make new seeds.

Monsanto claims to regard only the planting of *second-generation* seeds as infringing. But Monsanto's legal theory is incapable of drawing a principled distinction between planting first- and second-generation seeds. Under Monsanto's expansive theory, McFarling's act of planting the seeds he purchased from seed companies was not a "use" protected by the exhaustion doctrine, but instead an act of manufacturing falling outside that doctrine's ambit. The only distinction between the first- and second-generation seeds—the fact that Monsanto purported to license only the former for planting—evaporated when Monsanto waived its contract claim. This critical difference separates the issues presented here from those on which this Court previously denied certiorari. And it means that to sustain the Federal Circuit's decision, Monsanto must defend an interpretation of the exhaustion doctrine so cramped as to render that doctrine a nullity.

2. Nor is the patent-exhaustion issue waived. As Monsanto recognizes, "[a]lthough the question of patent misuse is doctrinally distinct from that of patent exhaustion, on the facts of this case they are closely related." Opp. at 18. Each question, in this case, centers on "essentially the same argument: that Monsanto surrenders any legitimate patent rights it has in second-generation soybean seed when the first generation of seed is sold." *Id.* And because under Federal Circuit law a patent cannot be misused unless the patentee attempts to extend

the patent beyond its lawful scope, *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426-27 (Fed. Cir. 1997), resolution of the patent-misuse issue necessarily requires resolving the exhaustion question, which determines whether Monsanto is seeking rights beyond what patent law provides.

In the decision below, the Federal Circuit explicitly recognized the continuing vitality of McFarling's misuse argument, embarking on a new patent misuse analysis under the '605 patent, where it had previously analyzed the issue only with regard to the '435 patent. App. 7a. It ruled that "[t]here is no patent misuse in the license terms for either patent." *Id.* While the decision below did not equate misuse with exhaustion in so many words, the briefing below did, and on the facts of this case, as Monsanto recognizes, they form "essentially the same argument."

Monsanto cannot credibly claim to be surprised by McFarling's exhaustion argument; indeed, from the outset of this case, one central argument has been that Monsanto's patent monopoly was exhausted at the moment that ownership of the seeds passed to McFarling. The exhaustion issue is properly presented.

3. On September 25, 2007, this Court granted certiorari in *Quanta Computer, Inc. v. LG Electronics, Inc.* (No. 06-937). For three reasons, this case is a logical companion to *Quanta*.

First, the cases present striking parallels. In each case, a patented invention purchased from a

licensee was put to its only reasonable use. The Intel computer components in *Quanta* were combined with non-Intel components, since the only other function those components could have served was to take up space. Likewise, the seeds in this case were planted in the ground, the natural use that farmers make of those seeds. Monsanto claims that *Quanta* presents is different because soybeans can be sold as a commodity, rather than being put to their only reasonable use in farming. Opp. 19. But this distinction fails: computer components, like soybeans, can be bought and sold on the open market. This does not change the fact that the only reasonable use of the computer components in *Quanta* was their combination with non-Intel computer components, or the fact that the only reasonable use of the seeds in this case is planting them in the ground. No farmer buys 50-pound quantities of soybean seeds to eat at home.

Second, the differences that do exist between the two cases would allow the Court a comprehensive view of the patent-exhaustion issue. Unlike computer components, seeds replicate themselves when put to their only reasonable use. For this reason, there can be no reasonable "us[e]" of the seeds without "making" new seeds. 35 U.S.C. §154(a). This Court should review this case in the same term as *Quanta* because only by considering both types of cases can it get a complete picture of the circumstances in which exhaustion arises.

Third, the law of patent exhaustion in the lower courts has developed along radical lines since this Court's most recent opportunity to speak on the

issue in *United States v. Univis Lens Co*, 316 U.S. 241 (1942). In the line of cases represented by *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the Federal Circuit has unmoored post-sale restrictions on patented goods from their legitimate basis in contract law and instead has allowed unilateral post-sale restrictions to be enforced through patent remedies. Because the decision below is the product of this straying, almost any result that this Court reaches in *Quanta* is likely to affect the legal standard applied below in this case. Indeed, in the very same week in which Monsanto filed its brief arguing that *Quanta* would *not* affect the outcome of this case, the Biotechnology Industry Organization ("BIO")—of which Monsanto is among the largest members—argued in its brief in the *Quanta* case that this Court needed to draw a careful line in *Quanta* because of the effect that the exhaustion decision there could have on seed-saving cases like *McFarling*. Brief of the BIO as *Amicus Curiae* in Support of Neither Party, *Quanta* (No. 06-937). Given BIO's acknowledgment that the cases are conceptually linked, the Court should at least hold this case until the same issues are resolved in *Quanta*.

Accordingly, the Court should grant McFarling's petition for certiorari on the patent-exhaustion issue.

Respectfully submitted,

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